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Report of the President

May, 1935
May, 1936

THE LIBRARY OF THE
JUN 7 - 1937
UNIVERSITY OF ILLINOIS

New York Stock Exchange

332.6
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THE LIBRARY OF THE
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UNIVERSITY OF ILLINOIS

THE GOVERNING COMMITTEE,
NEW YORK STOCK EXCHANGE.

GENTLEMEN:

I have the honor to submit to you a report on the administration of the Exchange for the year ended May 1, 1936. Although the year under review was an eventful one, I shall, in the interest of brevity, attempt to give only a resume of the more important developments, omitting burdensome detail. Comments on the various forces which have shaped the course of the markets are necessarily abbreviated; these comments appear as a supplement to the report of departmental activities within the Exchange organization.

ADMINISTRATIVE CHANGES

As the result of a thorough survey of the Exchange and its affiliated companies initiated in May 1935, a number of departmental consolidations and rearrangements seemed advisable in the interest of greater efficiency, coordination and economy. Most important of these consolidations, from operating and administrative viewpoints, was the merging of the three former special Committees on Wages, Survey and Records and Investigations to form the new Committee on Management and Personnel. To this Committee also have been delegated certain prescribed duties relative to the management and personnel of affiliated companies.

The survey revealed a number of overlapping and duplicating activities performed by the Quotation and Commission and Business Conduct Committees. Formerly housed in separate non-contiguous offices, the staffs and records of these committees now occupy remodeled offices on the eleventh floor of the Exchange building. While effecting this move, provision was

also made on the eleventh floor for office space for the staffs of the Committees on Arbitration, Odd Lots and Specialists, Customers' Men and Foreign Business, all under the same clerical superintendence. The work of these six committees is so closely related as to afford substantial advantages from the new office arrangements. Another material saving has been effected by the reorganization of the Night and Day branches of the Stock Clearing Corporation.

I have given only a partial list of advantageous consolidations indicated in the survey of the Committee on Management and Personnel. Certain further consolidations are in process while still others await the provision of adequate physical space.

Executive Staff

In order to relieve the President of the mounting administrative details of the office, the Constitution was altered to provide for an Executive Vice-President to perform such duties as the President may prescribe. Dean K. Worcester, formerly an Assistant Secretary, was appointed to this office. The title of Accountant was changed to that of Comptroller as more clearly describing the present duties of that officer. John Dassau, formerly the Accountant of the Exchange, was appointed to the position of Comptroller. Other changes during the year included the appointments of Walter O. Loomis as Assistant Secretary, Eugene Lokey as Executive Assistant to the Committee on Public Relations, Olin F. McCormick as Executive Assistant to the Committee on Management and Personnel, E. C. Gray as Secretary to the Committee on Business Conduct, John H. Haskell as Secretary to the Committee on Stock List, Max Jacquin as Secretary to the Committee on Foreign Business and Frank J. Coyle as Secretary to the Committee on Customers' Men.

Subsequent to the period under review Robert L. Fisher, formerly an Assistant Secretary, was appointed Secretary of the Exchange to succeed Ashbel Green, retired. More recently Bradford Bixby Smith, Assistant Vice-President of the Cleveland Trust Company, was appointed Economist of the Exchange to succeed the late J. Edward Meeker. He will assume his duties on October 5th.

Federal Regulation

Operation of the Stock Exchange under the program of regulation established by the Securities Exchange Act of 1934 presented new problems. Many negotiations and conferences were held in New York and Washington with members of the Securities and Exchange Commission, the Board of Governors of the Federal Reserve System and the staffs of these Government bodies. The Exchange also devoted much effort to the collection of statistics from its members for the purpose of providing basic data for the information both of the Exchange and of the regulatory agencies in conjunction with the continued study of problems or proposals affecting the securities business.

Late in May, 1935, the Exchange adopted a number of rules with respect to transactions for their own account by members while on the floor of the Exchange, joint accounts, the giving of orders for discretionary accounts, etc. Included in these rules were some which had for years been settled practices of the Exchange, such as the rule forbidding a short sale at a price below that of the previous sale. These rules were adopted as a result of negotiations with the Securities and Exchange Commission and reflect the establishment of an administrative procedure by which the enforcement of rules, including the possible imposition of discipline, is left to the Exchange rather than to the public authorities.

I am happy to record my belief that the relationships between the Exchange and the Federal regulatory bodies have continued to be cooperative and harmonious; and I wish to express my thanks to the members of the Exchange, particularly those serving on standing committees, who have so willingly assumed the additional responsibilities and burdens incidental to the task of administering the affairs of the Exchange under Federal regulation.

Public Relations

There is an obvious obligation on the part of those who have direction of the nation's primary security market to keep the public informed as to its functions and operations. Some fifteen million security holders and the owners of one hundred million savings bank accounts and insurance policies, who are indirect owners of securities, depend upon the maintenance of an efficient market which will accurately evaluate their property and afford a place where securities and money may be exchanged one for the other with a minimum of friction. Your Committee on Public Relations and I have been acutely conscious of our responsibility to these investors.

My own view of a proper public relations policy for the Exchange, which I have tried to make clear, is that we should combat prejudice and misunderstanding, and combat it actively and aggressively, on every front, twenty-four hours a day, three hundred and sixty-five days a year. As I have repeatedly said, there is no magic that I know of that can be invoked, either successfully or honestly, as a substitute for a policy of education and information.

We have seen our task to be something beyond the mere publication of Exchange statistics and facts. We have undertaken to carry these facts and their in-

terpretation to the public. In this work I have had the loyal support of the membership of the Exchange.

Regional Meetings

As a cardinal feature of our public relations program we have sought to enlist the cooperation of our entire organization, especially that of the large group of member firms located in cities other than New York and also the outlying branch offices of our member firms. We have sought to bring the representatives of member firms throughout the country into closer relationship with the management of the Exchange. To this end a number of our members have accompanied me on a series of regional visits to our out-of-town representatives. Meetings have been held in more than twenty cities, including Los Angeles, Calif., San Francisco, Calif., Montreal, Canada, Colorado Springs, Colo., Denver, Colo., Chicago, Ill., Wichita, Kans., New Orleans, La., Boston, Mass., Kansas City, Mo., St. Louis, Mo., Syracuse, N. Y., Oklahoma City, Okla., Tulsa, Okla., Philadelphia, Pa., Scranton, Pa., Memphis, Tenn., Dallas, Texas, Houston, Texas, Seattle, Wash. In addition, I have had the pleasure of speaking before groups in Atlantic City, N. J., Springfield, Ill., Cleveland, Ohio, Washington, D. C., and Detroit, Mich. During the year your president has spoken on the Stock Exchange and on current economic problems and policies before more than 35 audiences in 16 states.

Everywhere the reception accorded the representatives of the Exchange has reflected an eagerness on the part of our people to cooperate wholeheartedly in our good-will efforts and an intelligent appreciation of the necessity of going more than halfway to satisfy public curiosity with respect to the operations of the Exchange. I wish to record here my gratitude to the following members and partners who absented them-

selves from the floor and their offices for many days at a time in order to carry on this important work: Charles H. Blair, Benjamin H. Brinton, Dewees W. Dilworth, Maurice L. Farrell, Howard C. Foster, Richard H. Gordon, Colgate Hoyt, A. Heyward McAlpin, Roger D. Mellick, Herbert L. Mills, Charles M. Newcombe, Howard C. Smith, Jacob C. Stone, Robert L. Stott, A. Varick Stout, Jr., J. Herbert Ware, Richard Whitney.

Conferences

A report on public relations activities would be incomplete which neglected to mention the conferences of our own members held within the Exchange. For the purpose of acquainting our active floor members with the latest trading rules and of bringing about a uniformity of practice in the interest of customers, the Committee on Odd Lots and Specialists held during the year a series of weekly meetings to which groups of members were invited. Practically the entire active floor membership attended one or another of these meetings. I believe that this Committee has performed a task constructively beneficial to our members and in the public interest as well.

Some of our larger wire houses brought their out-of-town managers to the Exchange in groups to confer with officials of the Exchange and to acquaint themselves at first hand with the mechanics and procedure of trading. I have reason to believe that such visits have beneficial results and express here the hope that they may establish a precedent which will in time be generally followed by other houses. The discussions evoked by these meetings were both instructive and salutary and resulted in a better understanding of trading rules, and their application to ever recurring business problems.

The attention of the members has been called to the

handbook of Exchange procedure by Dr. Birl E. Shultz, especially designed for those actually engaged in or preparing for New York Stock Exchange work. In addition to Dr. Shultz's book, there has been made available to members and the general public a booklet published by the Committee on Public Relations, dealing in a non-technical way with the functions and operations of the Exchange.

Memberships

There were 78 transfers of Exchange memberships from May 1, 1935, to May 1, 1936; the prices ranging from a low of $85,000 on May 9, 1935, to a high of $174,000 on March 26, 1936.

During the Stock Exchange year 16 members died: Richard B. Ayer, B. L. M. Bates, M. C. Bouvier, Michael F. Brady, Wm. Ellery Bright, William J. Ehrich, William J. Fitzsimons, John C. Giles, Robert Glendinning, A. E. Goodhart, W. Strother Jones, Llewellyn Powell, Iulian Triar, Lewis A. Williams, Gus K. Worms, and Coleman Wortham.

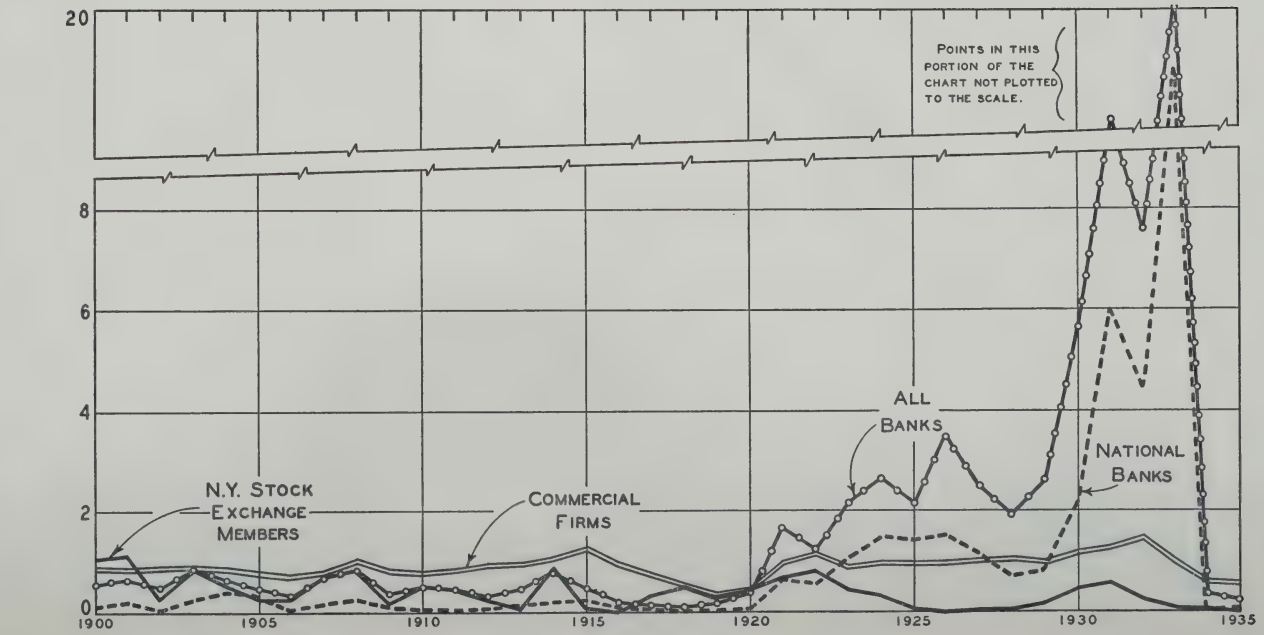
Insolvencies

It is gratifying to report that no member insolvencies occurred during the 1935 calendar year. As the chart on page 8 reveals, the Exchange member firms' record of solvency lends itself to a highly favorable comparison with statistics relating to embarrassments in the fields of banking and general business.

Listings

The progress of recovery has been reflected in a substantial increase in the number of listing applications considered by the Committee on Stock List. For the

INSOLVENCIES
1900-1935



year ending April 30, 1936, listing applications covering 276 issues were recommended or adopted by the Committee. This is approximately twice the number recommended in the previous year.

Rapid changes in various aspects of the Committee's listing policies and its relations with listed companies have occurred as a result of the Securities Act as amended and of the Securities Exchange Act of 1934, and also on account of new developments in the field of finance and corporate affairs arising out of changed economic conditions and new legislation. The Committee has reviewed many of its earlier policies, including those affecting the size of companies eligible for listing and the status of companies in bankruptcy.

Without lowering its listing standards for the protection of investors, the Committee on Stock List, during the year, has taken many steps to facilitate the movement of capital into business enterprise by the revision and simplification of its listing procedure.

Stock Clearing Corporation

The increased activity in transactions on the Exchange naturally resulted in a larger volume of clearance and settlement operations through the Stock Clearing Corporation. Clearing members on April 30, 1936, numbered 309 as compared with 307 on April 30, 1935. Stocks cleared on April 30th were 657 compared with 553 on the same date in the previous year.

The success of the Corporation's program of economical operation is evidenced by the increase in the number of shares cleared per employee by four million in 1935 over the same period in 1934.

Stock Exchange Institute

The record of enrollment in the Stock Exchange Institute, which is conducted under the supervision of a

sub-committee of the Committee of Arrangements, shows a satisfactory interest on the part of employees of both the Exchange and member firms in improving the educational opportunities offered by the Exchange. Fluctuations in annual enrollments from 3,409 in 1931 (the year in which member firm employees were first admitted to classes) to a high of 5,397 in 1934 and receding to 3,378 in 1936 will be found, I believe, to correspond to the changes in the total number employed in the entire Exchange organization.

The number of out-of-town employees who are able to avail themselves of the correspondence course initiated in 1933 was substantially increased by the "Group Study Plan." Under this plan as many as ten students may register under a "key man" or leader in each office. Sixty-six groups totaling 596 students registered under the plan.

Under the advice and supervision of the members of the Committee on Customers' Men, the Institute offered a Customers' Man Course divided into three fields—Stock Exchange Practice, Brokerage Office Practice, and Security Analysis. In addition, special qualifying examinations for 519 customers' men were given under the direction of the Committee during the period from February 5 to September 22, 1936.

As a footnote to the foregoing figures of the Institute for the period under review, I might add that the registration of member firm employees for the Winter Term of 1936, which began in September, has been unprecedented. Enrollments total 2,423 and 1,548 students registered. This is an increase in enrollments of 42.7% over the Winter Term of 1935. Eighty-six and three-tenths per cent of the enrollments are from member firms.

Business Conduct Committee

During the year ended April 30, 1936, the Committee on Business Conduct, through the operation of the financial questionnaire system and through examinations by Exchange accountants at the offices of member firms and prospective member firms, has continued its supervision of the financial condition of our member firms and of the manner in which they conduct their business.

In carrying out its duty to observe the course of transactions on the Exchange, the Committee has broadened its investigations in the light of the trading rules which were adopted in June 1935, and has increased the extent of its observation of stock trading.

In the past administrative year the Committee has passed upon about 550 complaints involving the handling of customers' orders, accounts, etc.; acted upon approximately 1,100 proposed advertisements of our members; and considered about 4,700 requests for extension of time, etc., in connection with margin calls and cash transactions under Regulation T.

Building Company

The New York Stock Exchange Building Company is a New York corporation organized on January 31, 1863. The entire stock of the Corporation is held by the New York Stock Exchange.

During the seventy-three years of its existence the Company has been continuously engaged in the operation and maintenance of the buildings which house the Stock Exchange. Throughout this time the Company has been compelled to acquire additional land, construct new buildings and alter existing structures in order to accommodate the expanding business of the members of the Exchange. The Company now has title to the entire

block bounded by Broad, Wall, New Street and Exchange Place, with the exception of 5,521 square feet of land which it has under long term lease. This is one of the largest single plots of land in the financial district.

The fixed equipment on the trading floor—the trading posts, telephone booths, pneumatic tube system, annunciator boards, ventilating system—is owned and maintained by the Company.

The five separate buildings which occupy the property are manned by a force of 49 employees in the Mechanical Department; 209 in the Maintenance and Service Department; seven in the Carpentry and Locksmith Department and 76 in the Protection Department.

Repairs to Building

After intensive studies and examination from scaffolds on both sides of the building and after consultation with our builders and structural engineers, it developed that much of the stonework and statuary on the old Stock Exchange Building was in need of extensive repairs. Pronounced erosion of the stone surface existed, particularly in the sculptured detail.

In view of these conditions, and the tremendous weight of stone figures (estimated at approximately 90 tons), the Building Company decided to make the necessary repairs without delay.

Duplicates of the statuary, made of lead-covered copper, are being installed, and the stone figures broken up and taken down. Upon completion, the substituted lead-coated copper figures will resemble, in every detail, the former stone figures, and their weight will be nearly 70 tons less than that of the original statuary.

Committee on Bonds

Under the authority of a Constitutional amendment, the Committee on Bonds adopted two new rules, known

as the "crossing" rule and the "nine-bond" rule. The "crossing" rule prohibits the crossing of orders in listed bonds (with certain exceptions) by "crossing" buying and selling orders in the offices of members. Executions must take place on the floor of the Exchange so that customers will have the benefit of the "auction" market. Under the "nine-bond" rule orders for less than ten bonds (except under certain conditions) must be sent to the floor for execution. Here again the purpose of the rule is to give the customer the benefit of the "auction" market except where the customer specifically gives other instructions.

Committee on Customers' Men

An amendment to the Constitution was adopted on November 13, 1935, creating a standing committee on Customers' Men whose prescribed duties are: to supervise all branch office managers, customers' men, service men, securities salesmen and securities traders employed by a member of the Exchange or firm registered thereon; to adopt such rules and regulations in respect of the employment, compensation and duties of such employees, and in connection therewith to classify such employees, as it shall deem necessary or appropriate and to require observance thereof.

Promptly on its appointment the Committee proceeded to draft rules and regulations which were issued to members in handbook form on January 15, 1936. While the membership is by now fully conversant with these rules there is one which deserves special mention in this report. I refer to the requirement of previous business experience and examination by the New York Stock Exchange Institute under the supervision of the Committee as a condition precedent to the employment of branch office managers and customers' men. The importance attached to the applicant's character in

these examinations is indicated in the remarks of the Vice-Chairman of the former Special Committee on Customers' Men, in an address before the Stock Exchange Institute. He said: "We are trying to reach a goal—the goal as I see it is the creation of public confidence in the advice that the public gets from Exchange members; advice of an unselfish nature that will attempt to answer the problems of the particular customer asking the advice; that it will be advice uncolored by a desire to turn the customer purely into a producer of commissions." It seems to me that insistence upon high character, a character which will recognize and observe the fiduciary relationship, is implicit in this statement.

Committee on Foreign Business

In August 1935, a standing Committee on Foreign Business was established to supervise members' activities outside the continental United States. The Committee promptly addressed themselves to the formulation of rules and regulations with respect to International Arbitrage and to the representation of members abroad and competitive conditions obtaining in the various foreign fields. The object of the Committee has been to facilitate the conduct of foreign business by clarifying and codifying the rules governing it and by, so far as is consistent with the fundamental principles of the Exchange, conforming to local customs and practices.

Committee on Management and Personnel

A new standing Committee on Management and Personnel was created by an amendment to the Constitution approved August 7, 1935. The prescribed duties of the Committee are to determine the number, duty and compensation of all employees of the Exchange and affiliated companies, except Officers of the Exchange and appointees of the Governing Committee. The Com-

mittee shall also have jurisdiction over such group insurance, disability benefit or retirement pension plans as may, from time to time, be in force with respect to employees of the Exchange. Reference to the work of this Committee will be found elsewhere in this report under the section "Departmental Changes."

The retirement Annuity Plan for employees of the Stock Exchange and its Affiliated Companies was amended on June 1, 1936 in order to make allowance for the benefits, provided under the Social Security Act, paid for by taxes against both employer and employee, and to incorporate changes found advisable in the light of the experience since the inception of the plan in 1925. Under the revised provisions, annuities payable to employees who join the plan approximate 1½ per cent of the average annual salary multiplied by the number of years of service prior to age 65.

The Group Insurance Plan was revised on July 7, 1936, to conform with current practices in administering such contracts. Families of an employee who contributes receive a death benefit of approximately one year's salary of the employee, with certain reductions of benefit in effect after retirement.

As of May 1, 1936, 2,417 employees of the Exchange and of its affiliated companies were under the jurisdiction of the Committee.

The Committee on Securities

A new and important aspect of the work of the Committee during the period covered by this report developed in connection with the number of new problems growing out of corporate reorganizations under Sections 77 and 77-B of the Bankruptcy Act. Requirements were adopted and, with the cooperation of listed companies, appropriate forms were worked out to dispense with individual proofs of claim upon securities and to elim-

inate the use of the special assignment form which had been required in previous bankruptcy cases. New precedents were established concerning a number of related matters, such as methods of acceptance of a plan of reorganization, and the issuance of rights to subscribe to new securities upon reorganization.

In some cases situations developed where the market prices of two or more classes of securities of an issuer in reorganization did not adequately reflect the relative rights of the respective classes under a plan. To encourage arbitrage which would minimize such differences the Committee adopted a policy to rule in so far as practicable upon admission to dealings of the new securities issued under the plan that contracts in the old securities might be settled by delivery of the equivalent in new securities.

Finances

Consolidated balance sheets of the Exchange and of its affiliated companies as of December 31, 1934, and December 31, 1935, together with consolidated statements of income and profit and loss for the years 1934 and 1935 were sent to members with a letter of transmittal dated January 27, 1936. The income and profit and loss statements show a net loss of $209,325.69 for the year ended December 31, 1935, as compared with a net loss of $1,060,890.34 for the previous year. I feel that the reduction in net loss, accomplished without impairment in efficiency, is most gratifying.

Amendments

During the period covered by this Report the Constitution and Rules of the Exchange were altered to provide for:

(1) An increase in the Nominating Committee to seven;

(2) The selection by the Nominating Committee of 21 members as candidates for the succeeding Nominating Committee;

(3) Appeals to the Governing Committee of arbitration cases irrespective of the amount involved;

(4) Alterations in the rules substantially in accordance with the trading rules suggested by the Securities and Exchange Commission. (Adopted May 27, 1935.)

(5) Appeal to the Governing Committee by non-member complainant before the Committee on Business Conduct and on all appeals providing for a special Advisory Committee to examine the record and to give an opinion thereon to the Governing Committee. (Adopted May 28, 1935.)

(6) The creation of the office of Executive Vice-President. (Adopted June 5, 1935.)

(7) A new standing Committee on Management and Personnel. (Adopted August 7, 1935.)

(8) A new standing Committee on Foreign Business. (Adopted August 28, 1935.)

(9) The allowance to security salesmen of a commission on sales of such listed guaranteed stocks, owned by members, as may be from time to time designated by the Committee on Quotations and Commissions. (Adopted November 13, 1935.)

(10) A new standing Committee on Customers' Men. (Adopted December 4, 1935.)

(11) The requirement that no transaction be made for a customer unless the opening of such account shall have been specifically approved by a member or a partner, provided, however, that in the case of branch offices, the opening of an account for a customer may be approved by the manager of such branch office but the action of such branch office manager shall, within a reasonable time, be approved by a partner of such firm. (Adopted December 11, 1935.)

(12) The approval of the Committee on Customers' Men prior to permitting any employee to exercise discretion in the handling of an account carried for a customer pursuant to a power of attorney. (Adopted January 8, 1936.)

(13) Authority for the Committee on Stock List to place upon the list, without report and recommendation to the Governing Committee, securities of corporations which have other securities of the same or junior rank listed on this Exchange, in each case a full report being made to the Governing Committee at its next meeting. (Adopted January 9, 1936.)

In concluding this report I wish to express my sincere gratitude to the members of the Governing Committee and of the Advisory Group who, often at definite sacrifice, have given me uniform consideration and loyal cooperation; to the members of the Exchange and the partners of member firms who have aided by their counsel; to the Executive Staff and our great group of employees who have daily given evidence of their loyalty and to the hundreds of men it has been my privilege to meet throughout the country who, by encouragement and advice, have demonstrated their interest in the welfare of our institution.

Respectfully submitted,

Charles R. Gay,

President.

During the last administrative year 18 stock and 33 bond issues were stricken from the list because of failure of their issuers to apply for registration under the Securities Exchange Act, and the list lost a total of 102 bond issues by reason of maturity and calls for redemption. Giving effect to the total admissions and strikings over that period, the list gained 11 stock and lost 75 bond issues.

On May 1, 1935, 1,301,900,490 shares of stock and $44,266,533,356 par value bonds were included in the list; a year later the comparable figures were 1,336,686,-499 shares and $44,222,956,661 par value bonds; the list, therefore, gained 34,786,009 shares of stock and lost $43,576,695 par value bonds.

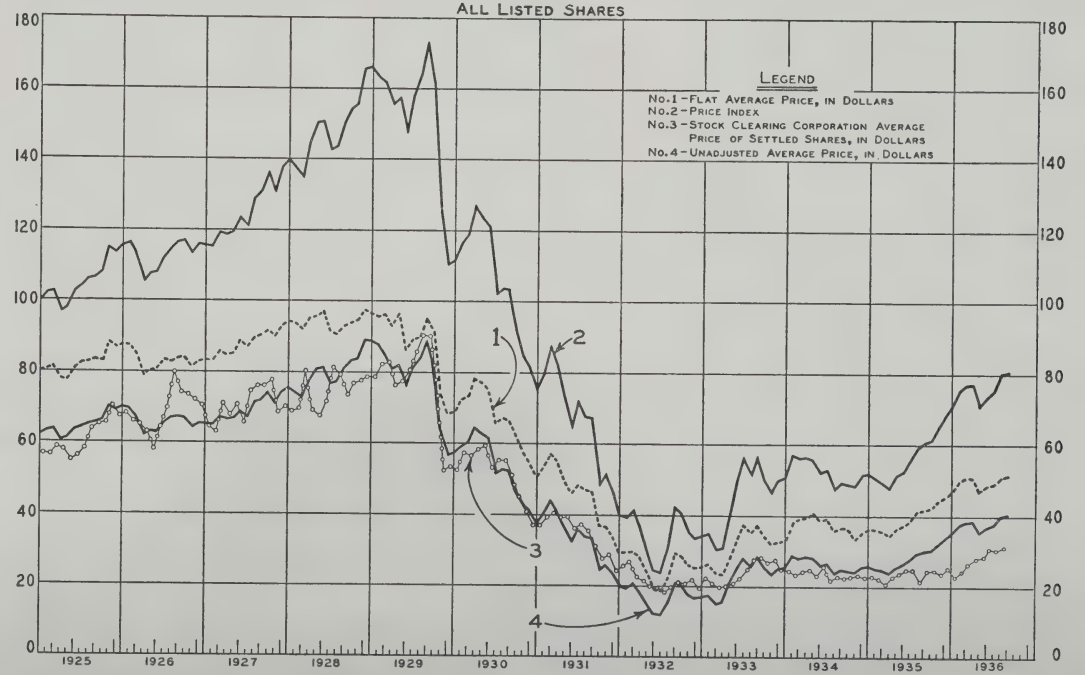
The Stock Market

Share prices, as the chart on Page 20 reveals rose consistently from May 1, 1935, to April 1, 1936; and thereafter a short but sharp decline occurred. Reference to the Exchange's stock price index, January 1, 1925=100—in respect of which adjustments were made for stock dividends and split-ups—disclosed that listed share prices developed an average gain of 50 per cent from May 1, 1935, to April 1, 1936, and thereafter declined 8 per cent by the first of the succeeding month.

From the low point of the depression in 1932, the gain shown on April 1, 1936, in prices of all listed shares was 228 per cent. Since company earnings did not advance uniformly and on an even front, it is necessary to examine other factors in order to have a full explanation of the substantial percentage rise in the prices of listed stocks.

Due to the large-scale refunding operations which reduced income yields, investors turned to lower-rated bonds and equities for the income denied by prime

STOCK PRICE INDEX AND MONTHLY AVERAGES OF ALL LISTED SHARES



No. 1. Flat Average Price (the average of all prices) in dollars.

No. 2. Price Index (January 1, 1925 = 100) based on the adjusted average price, which is the average price (No. 4) adjusted for split-ups, stock dividends, etc.

No. 3. Stock Clearing Corp. monthly average price of settled shares, in dollars.

No. 4. Unadjusted Average Price found by dividing the total market value by the total number of shares listed, in dollars.

Nos. 1, 2 and 4 are based on first of month figures.

investment securities. Plainly the fashion of investment was changed; and investors had to assume the business risks ordinarily taken by stockholders and holders of the more speculative debt. Undoubtedly investment buying in the stock market accounted for the relatively large amount of "cash" transactions.

Consequently, the rise in prices of equities reflected, in part, downward adjustment of their yields to conform generally with the reduced yield income on senior investment securities. It is interesting to note that Moody's compilation of average yields on 200 common stocks declined from 4.42 per cent on May 1, 1935, to 3.32 per cent on April 1, 1936, a loss of about 25 per cent; and the decline in yields from 11 per cent at the bottom of the depression to the April, 1936, level amounted to about 70 per cent.

Loans on Securities

In striking contrast to increasing governmental and commercial borrowings, loans on securities failed to show any substantial increase during the late year covered by this report. Neither dealers' and brokers' loans nor direct loans on securities were negotiated in anything like normal amounts. On May 1, 1935, total loans on securities, including brokers' loans, amounted to $3,219 million, and on April 29, 1936, the total was $3,304 million.

On May 1, 1935, New York Stock Exchange member borrowings on collateral amounted to $804 million, and a year later the total was $1,064 million. These figures compare with $2,836 million on May 1, 1926, and with $3,341 million on May 1, 1927. This comparison is distorted somewhat, however, by the fact that listings of securities, used as collateral for brokers' loans have increased greatly since 1927 (cf. chart page 26),

as well as by wide variations in market values between the two periods.

By employing ratios, the distortion may be overcome. On May 1st of the years 1926 and 1927 the ratio of member borrowings to the market value of all listed stocks was, respectively, 8.47 per cent and 8.24 per cent. On May 1st of the years 1935 and 1936 the identical ratio was 2.40 per cent and 2.23 per cent. Subsequently, the comparable ratio fell under 2 per cent for the remainder of this year to date.

Since 1926 commonly is referred to as a "normal" year in American business, it seems safe to conclude that during the late administrative year, and subsequently, member borrowings were arranged roughly in the proportion of one-quarter of normal amounts. The significance of this is revealed when it is recalled that member borrowings and the ratio of such borrowings to market values generally reflect the extent of the long interest, or public participation in the market. Prior to 1935 member borrowings on collateral were commonly expanded and contracted proportionately as the market values of listed stocks rose and fell. By contrast, from May 1, 1935, to May 1, 1936, when the market value of listed stocks appreciated $14,226 million, member borrowing rose $260 million.

Margins

The Federal Reserve Board, in January, 1936 (effective February 1), raised margins on stock exchange credit transactions by lowering the maximum loan value of securities to 45 per cent of their market values in respect to collateral loans which legally could be negotiated by brokers. On March 25th the Federal Reserve Board again amended the margin requirement (effective April 1), fixing the maximum loan values of stocks at a flat 45% of market values. This same percentage was made

applicable to security loans arranged by banks for the purpose of purchasing or carrying stocks (effective May 1, 1936). Thus the resulting margins were set at 122 per cent of debit balances.

Previously, the so-called three-pronged margin requirements, initiated when the Securities Exchange Act of 1934 became effective, had been applied to our market. Under the initial margin requirements of this formula the average amount of margins had risen from the equivalent of 28 per cent to 40 per cent of market values as stock prices advanced during the period in which this formula was in effect. The revised margin requirements resulted in increasing the latter figure to 55 per cent. It is of interest to note that on January 1, 1936, member borrowings amounted to only $938 million, which represented but 2 per cent of the market value of all listed stocks. During the year, member borrowings increased slightly at times but the relationship to market values did not rise above 2 per cent with the exception of their May 1 position.

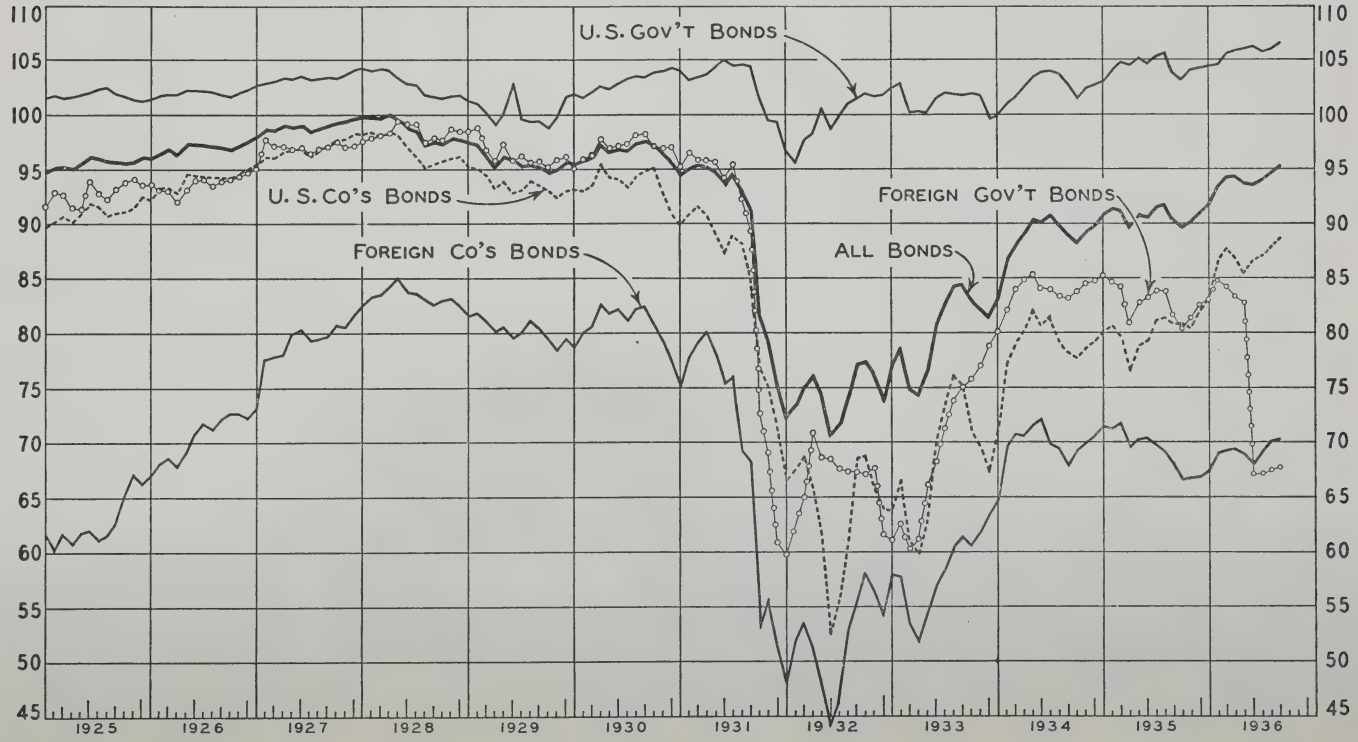
The Bond Market

It will be recalled that at the culmination of the 1928-1929 inflationary era, the Exchange's compilation of listed bond prices set their average at 95; subsequently the low average price of 71 was reached in 1932; and near the end of the administrative year, covered by this report, the average price of all listed bonds was computed at 94.5. The Exchange's compilation of listed bond prices is provided in charted form on Page 24.

The pressure of excess bank reserves and investment funds repeatedly drove prices of high grade bonds to new and, at times, to record high levels. And prices of so-called second grade bonds rose along with the improvement in company earnings and in stock prices.

AVERAGE MONTHLY PRICES OF ALL LISTED BONDS IN DOLLARS

AVERAGE PRICE = MARKET VALUE ÷ PAR VALUE

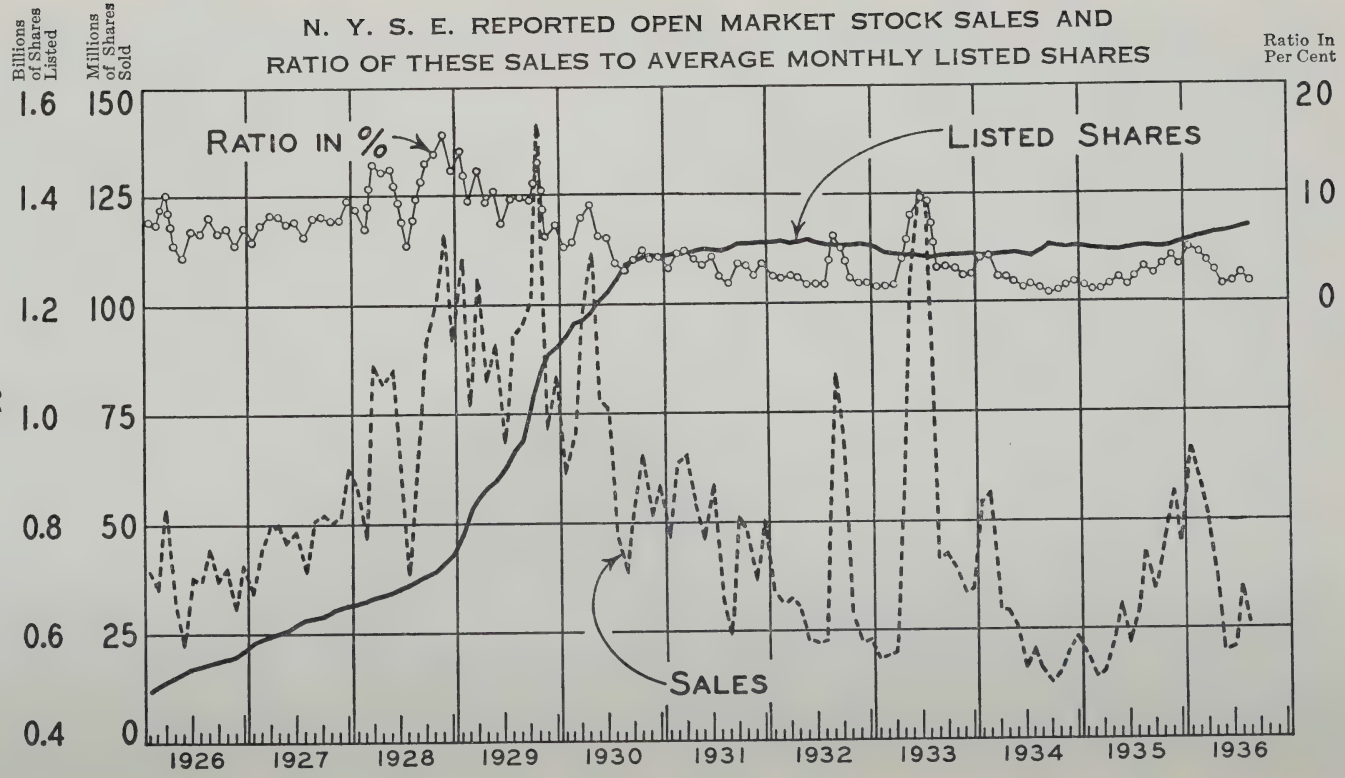


The rising course of bond prices, it should be noted, was not as smooth as that of stocks. For example, during August, 1935, prices of high grade bonds dropped sharply, influenced, no doubt, by the continuing Treasury deficit, the approaching maturity of the called Fourth Liberties and the political tension in Europe. Investors, at the time, confronting a market dominated by supply, began to realize profits. Later on, with bond prices registering new highs frequently and with new issues bearing the lowest coupon rates in several decades, the bond market was rendered sensitive not only to the implications of current events, but also to other influences tending to change interest rates.

Furthermore, notice should be taken of the proportionate decline in non-bank holdings of the Government's interest-bearing debt. As revealed in a study by Joseph B. Hubbard, non-bank investors held 65 per cent of the debt in 1929 and from 1929 to 1935 such holdings diminished every year. In 1935 non-bank investors held but 46 per cent.

Turnover in Securities

From May, 1935, to April, 1936, inclusive, the reported stock turnover on the New York Stock Exchange was about 528 million shares, while in the same period the bond turnover was $3,579 million (par value). Share turnover, listings and the ratio of sales to listings are revealed graphically, on a monthly basis since January 1, 1926, by the chart on Page 26. In comparing volume over a long term, it is of advantage because of wide fluctuations in the amounts of securities included in the list from time to time, to relate volume to listings. For the last year under review, a simple calculation reveals that share turnover was 40 per cent of the mean annual listings; bond transactions represented 8.1 per cent of listings. Such ratios of transactions to listings


N. Y. S. E. REPORTED OPEN MARKET STOCK SALES AND
RATIO OF THESE SALES TO AVERAGE MONTHLY LISTED SHARES
Billions of Shares Listed
Millions of Shares Sold
Ratio In Per Cent
1.6
1.4
1.2
1.0
0.8
0.6
0.4
150
125
100
75
50
25
0
20
10
0
RATIO IN %
LISTED SHARES
SALES
1926
1927
1928
1929
1930
1931
1932
1933
1934
1935
1936

compare favorably with 32 per cent for stocks and 6.4 per cent for bonds established in 1932; but, in the case of turnover in stocks the 40 per cent ratio for the 1935-1936 period compares with 99 per cent for 1925, 84 per cent for 1926, 94 per cent for 1927, 132 per cent for 1928, 119 per cent for 1929, 67 per cent for 1930, and 44 per cent for 1931. The stock turnover ratio for 1933 was 50 per cent, for 1934 it was 25 per cent and for the calendar year 1935 it was 29 per cent by contrast with 32 per cent for 1932.

Considering turnover relationship by calendar years, starting with 1932, it is apparent that our comparative business in shares was less in 1934 and 1935 than in 1932.

To make a direct comparison with the Reserve Board's business index, another index was constructed for the ratio of annual reported share sales to listings by use of the same method employed by the author of the business index. The results follow:

INDEXES, 1923—1925 = 100

Year	Index (unadjusted) of ratio of New York Stock Exchange annual reported share sales to mean annual amounts of shares listed	Federal Reserve Board's unadjusted index of industrial production
1932	43	64
1933	67	76
1934	33	79
1935	39	90
First six months of 1935	52	100

Generally in the past, through the year 1933, reasonable harmony prevailed between Stock Exchange share turnover and the pace of business, in that they usually rose and fell together. But, subsequent to 1933, as the index numbers reveal, comparative share turnover at first declined as business improved sharply; and of late share turnover attained but 52 per cent of its "normal" as the Reserve Board's business index registered in the

"normal" zone. The conclusion drawn from these facts is that, through restrictions, the market has suffered impairment in its functional characteristics.

As a result of new regulations, of the reluctance of large traders to make market commitments, and of the restrictive effects of the high stock transfer and capital gains taxes, comparative share volume not only fell away but the quality of the market also was affected unfavorably.

In other words, the market became thin and illiquid and presented real problems to those purchasers who wished to acquire or those sellers who wished to dispose of stocks in quantity. While complete statistical proof of market quality probably may never be obtained, still inspection of certain phenomena is enlightening. In short, it was discovered that the spreads between bids and offers were widened to an appreciable extent during the late year, and that the books of specialists no longer carried limit orders in amounts sufficient to provide normal market support or supply.

To throw some light on the increase in spreads between bids and offers, a study was made of the closing quotations for the 200 stocks which in 1935 contributed most to annual volume. So that the study could be relieved of the effects of month-end and week-end congestion in the market, the middle Wednesday of May, 1935, and May, 1936, were selected for the test days. The results of the study follow:

SPREADS IN CLOSING QUOTATIONS FOR THE 200 MOST ACTIVE STOCKS

	May 15, 1935	May 13, 1936
Average spread for 200 stocks	$0.276	$0.373
Number of spreads at ⅛.....	93	64
Number of spreads at ¼.....	61	62
Number of spreads at ⅜.....	12	27
Number of spreads at ½.....	20	22
Number of spreads over ½...	14	25

While it is not intended to indicate that this single test furnishes conclusive proof, the fact seems to be established that in a year the average spread for 200 stocks was widened from a little more than ¼ to considerably more than ⅓. The number of spreads of ⅛ decreased by 33⅓ per cent during the year, as the number of spreads at ⅜ and more increased appreciably.

New Problems of Taxation

During the latter part of 1935 and the earlier part of 1936, proposals for tax legislation held the attention of the business and financial community. While the President, in his January, 1935, budget message, had predicted a deficit of $4,869 million, it was realized, in June of that year, that the deficit would approximate $3,500 million—approximately $400 million less than that for the preceding year. Thus, for the first time since 1931, business was heartened by a reduction in the Government's excess of expenditures over receipts. The improvement was due solely to increases in collected taxes. In March, 1936, important revisions were proposed in the method of taxing corporations. Mainly, the new and revolutionary program involved the laying of taxes on undistributed corporate income and subjecting the income from dividends, realized by all taxable individuals, to the Federal "normal" income tax, which now is 4%.

The Capital Gains Tax

While on the subject of taxation, I should like again to draw attention to the operation of the tax on so-called capital gains and its effect on the stability of the secuities markets. Objection to the capital gains tax in its present form rests upon the facts, plainly apparent, that it is not paid by those who were intended to pay it; that its gross yield is comparatively small; that option of payment lies within the choice of the poten-

tial taxpayer; that the tax is not certain in its incidence; and that the tax is not general in its applicability and operation.

Reference to the Treasury's "Statistics of Income for 1934" reveals the fact that the yield of the capital gains tax is a relatively unimportant source of revenue. The gross amount of capital net gains included in the tax returns of individuals amounted, for 1934, to less than $212 million. In the same period the amount of capital net loss deducted was slightly more than $178 million. Persons paying a tax on incomes in excess of $100,000 reported about $23 million of capital net gains and deducted about $1,600,000 of capital net losses. There is no way of determining from statistics now available the amount of tax actually collected by the Government, but, assuming that the average rate paid by these taxpayers was 55 per cent., the tax realized from this group could not have exceeded $12 million. Obviously the wealthy refused to incur the tax liability.

Inevitably, stock prices have continued to reflect the result of this artificial curtailment of supply; and supply has failed at times to balance demand in the market. When natural forces in the market are thwarted, the conduct of business assumes an abnormality, and the danger attached to any crises is enhanced. Holders of securities and realty, which have advanced in price sufficiently to establish large paper profits, should, from every point of view, be allowed reasonable freedom in realizing their profits, and such sellers should not be unduly penalized when they follow the dictates of sound judgment. A great deal more than personal profits is involved through the possible danger to the market in the event that selling by large security holders is long postponed, and is suddenly forced by some unforseen event. The holders of securities, in respect of which large profits have accrued, will sell out as quickly

as anyone else when confronted with a situation which threatens to wipe out more of their profits than the tax would take away from them. And while no symptoms of such a crisis or emergency exist, still, in the face of past experience, it seems wise to give serious consideration to any eventualities which might artificially compel investors to turn sellers at times when it should be possible to have the very real advantage of their buying support in a declining market.

International Gold Movements

Net gold imports, with the exception of the gold outflow during February, 1936, continued unabated during the late year; and a total of $1,367,787,000 of gold was added to our already enormous holdings. This influx of gold was symptomatic of past and current maladjustments in world trade and currency relationships, and in part can be ascribed to the repatriation of American capital, confidence on the part of aliens in American business conditions and prospects, and to lack of confidence on the part of foreigners in political, social and business conditions existing at home. As a result of imports, our monetary gold stocks passed the $10 billion mark last December, and have continued to mount since.

Payment for the imported gold in federal reserve funds correspondingly added to member bank reserves at the reserve banks, and had the effect of enlarging the base for deposits and for increasing the supply of loanable funds. During the time, and previously, government securities had been issued in great quantities, and the banks had purchased Federal bonds and notes in unusually large amounts. Here we find the principal causes of the low money rates and of the high prices for and low yields on gilt-edge and other prime securities which ruled over the period covered by this report.

This imported gold represents, in part, flight of capital to this country and it is conceivable that, given compelling reasons, it may be withdrawn as rapidly as it has been accumulated; also, our bank reserves have long been sufficient to support credit expansion far beyond the anticipated requirements of the country. Thus it is possible to visualize a menace to our welfare by reason of large, hasty gold withdrawals on the one hand, and, on the other, of increased temptation to put potential credit, resulting from our great gold holdings, to inflationary use.

Bank Reserves

The reserves of member banks, during the administrative year under review, rose to a total of more than $6 billion during last December from $4.7 billion reported on May 1, 1935; and excess reserves mounted to $3.3 billion as 1935 came to a close. Could the banks have utilized such reserves in extending credit, its total would have exceeded, by approximately 50 per cent, the maximum credit extended during the 1928-1929 inflationary period.

Bank investments in securities—largely in "governments"—increased substantially from the June 1935, to the June 1936, calls for condition statements, and those investments accounted mainly for the concurrent advance in the total volume of outstanding credit. The gain in net demand deposits, occurring over that period, amounting to $2\frac{3}{4}$ billion, corresponded closely with the accompanying change in the banks' investment portfolios.

Other earning sources having been largely denied them, the banks turned to security investments for income. And here we find a primary cause of the high and, in certain cases, all-time peak prices for prime

bonds ruling in the market over the greater part of the last administrative year.

Money Rates

The plethora of loanable funds referred to above profoundly affected the money market. New York Stock Exchange call loans renewal rates were quoted at but ¼ of 1 per cent from May through September, 1935; at ¾ of 1 per cent from October 1935, through April 1936; and rose to 1 per cent during May of this year. Prime acceptances were quoted, during the entire period, at ⅛ of 1 per cent; and prime commercial paper at ¾ of 1 per cent. The yield on short-term Treasury bills approached the vanishing point.

Conforming to the money rate trend of the time, the New York State Banking Board reduced the maximum interest rate payable within the state on all deposits to 2 per cent, which action followed the announcements of the New York Clearing House that no interest would be paid after May 15, 1935, on balances carried for mutual savings banks, and that all interest payments would cease on demand certificates of deposit or time deposits, dated May 1, 1935, or thereafter,when repayment was demanded within six months.

Despite the fact that money remained on the bargain counter throughout the May 1935-May 1936, period, the demand for bank credit, apart from that used to finance the Government's operating deficit, showed little tendency to rise. It is possible that, as a result of pre-depression financing and of past accumulated surpluses, many corporations found it possible to finance their operations without recourse to the banks and the investment market.

Commercial Loans

Commercial loans, generally expressive of the short-term borrowings of business, amounted to $4,936 million on May 1, 1935, and to $5,039 million on April 29, 1936; and the net change over the period was a gain of $103 million. During such normal business years as 1926 and 1927, commercial loans were made in the average amount of about $8,500 million.

Public Security Offerings

The huge supply of unused funds was, however, of advantage to old borrowers. Both Government and business took full advantage of its possibilities to refund high-interest obligations by substituting therefor low-coupon issues.

As the last of the Liberty Loans—the 4¼'s—were called in April, 1935, Secretary of the Treasury Morgenthau calculated that the aggregate interest saving resulting from the Government's refunding operations would approximate $100 million per annum. Following the example set by the Treasury, some of the corporations enjoying good credit found it possible to refinance old and more expensive debt by offering bonds bearing the lowest coupon rates since the late nineties.

During June 1935, the $100 million issue of Treasury 3's—1946-1948—was oversubscribed four times at an average price of 103 18/32; in July 1935, both a slightly larger Treasury issue of 2⅞ per cent long-term bonds and more than $500 million of 1⅜ per cent notes were oversubscribed at 101 20/32 and at par, respectively; and, during March 1936, bidders seven times oversubscribed $1,223 million of the 2¾ per cent Treasury bonds and $677 million of its 1½ per cent 5 year notes. For the first time since the beginning of the depression,

subscriptions for the long-term issue exceeded those for the notes.

In addition to this financing by the Federal Government, states, municipalities and other governmental divisions, from May 1, 1935 to May 1, 1936, refinanced former obligations to the extent of $345 million, corporations to the extent of $3,070 million, making the total of refunding operations, exclusive of the Federal Government's, $3,415 million. Sub-governmental divisions raised, during that time, $820 million of new money in the capital market; corporations obtained $635 million of new capital, of which $128 million were floated during April, 1936; making the total of these new capital flotations, in the form of public security offerings, $1,455 million. These data were obtained from the *Commercial and Financial Chronicle*.

The foregoing figures compare with the following for the year 1926; sub-governmental refunding $21½ million, corporate refunding $942 million, total refunding as above $964 million; and sub-governmental new money $1,354 million, corporate new capital $4,357 million, total new money for these groups $5,711 million.

While business approached the investment market, in the last administrative year, for but 15 per cent or less of the amount of new capital we have learned to regard as the normal requirement of going business, still business long-term borrowings lately have been heartening by comparison with the prior dearth of such borrowings since 1931.

Happily, under the rulings of the Securities and Exchange Commission in respect of the Securities Act as amended, the required procedure in registering new securities has been simplified. Accordingly, we may hope to see a smoothly functioning capital market as soon as greater confidence is restored and when corporations are able to utilize additional funds to advantage.

Recovery in Durable Goods Industries

Repeatedly, during the May 1935-May 1936 period, industrial company reports exceeded expectations, and revealed that recovery in the durable goods industries no longer could be delayed. Manufacturers of automobiles and trucks, automobile accessories, electric refrigerators, farm implements, electrical equipment, radios, light machinery and the like reported the best results since 1930 in most instances; and in the automobile industry production and sales were comparable with earlier 1929 levels.

Privately financed residential building topped 1934 figures substantially; and lumber, and heating and plumbing supplies advanced accordingly. Steel operations climbed to 70% of operating capacity in April of this year and at times resisted seasonal declines. The noteworthy rise in machine tool orders reflected awakening to the possibilities of American industry. While privately financed non-residential building, railway, utility and other heavy equipment lagged, still gains were registered in these divisions of the durable goods industry, particularly in 1936. The persistent and widespread recovery alluded to above doubtless accounted for the resistance of business to the effects of unfavorable and disturbing events and for the welcome procession of favorable company reports.

The Upward Surge of Business

Among the important elements contributing to the upturn in business were the substantial increase in the price of farm products and the consequent improvement in farm income, which began in 1933. The purchasing power of farm products over factory goods rapidly increased until, during April 1936, it was reported by the Bureau of Labor Statistics as nearing so-called parity. Then the price index of finished goods stood at a level of

only 4 per cent above the price index of raw products; while under the widest depression discrepancy the price index of finished goods surpassed that of raw materials by 36 per cent.

The crop year, coinciding closest with the late administrative year, succeeded a year of artificial crop curtailment and drought. And greater acreage was seeded during the 1935-1936 period. Nevertheless, farm income and purchasing power continued to rise; and for March 1936, the Department of Agriculture reported that the farmers' cash income was $528 million, including only $15 million in benefit payments, by comparison with $479 million, including $50 million in benefit payments for March, 1935.

Thus it becomes apparent that the increase in farm income was due entirely to increased production and consumption, inasmuch as the volume of farm products sold at the time was 20 per cent greater than that for the same period of the preceding year.

The prices of non-agricultural raw commodities, excepting silver, rose to gratifying levels during the last administrative year, and the price of silver, in 1936, held at levels more than 60% above its depression "low."

Retail trade, exemplified by department and chain-stores sales, and by the business of mail order houses continued its steady expansion to 90% of the 1923-1925 average, and registered a gain of more than 50% above the depression low level. Wholesale buying also was carried on at improved and generally satisfactory levels.

Reflecting the advances made during 1935 and 1936 in industrial production, trade and commodity prices, the traffic of railroads, and the output of the petroleum fields and utility power plants not only increased appreciably, but exceeded expectations. Particularly, electric power and crude oil production were noteworthy inasmuch as

both exceeded previous records, including those established during 1929.

At the turn of the year business reports revealed the facts that gains over 1929 levels had been realized, during 1935, in wool consumption, shoes, cigarettes, and in durable goods lines such as washing machines, oil burners, electric refrigerators and lamps, radios, air conditioning equipment, and in air transportation. Here we have evidence again of the ever-changing adjustments in our national economy necessitated by new requirements on the part of the people and industry.

To sum up, business, during 1935, generally showed an improvement of approximately 60% above its depression low level; it established a 13% gain above the 1934 figure, and regained about one-half of the ground lost since 1929. Property values, real and personal, were enhanced substantially.

While the upward surge of business had held consistently for six months by the end of 1935, it is important to bear in mind the fact that many industries had failed to strike off the depression shackles. It is possible that this situation is revealed forcefully by comparing the indexes, prepared by the National City Bank, for business profits and activity. Considering 1926 as equal to 100, the index of business profits for 1935 was 53.5 and that of business activity was 76.7.

For the first quarter of 1936, the index of business profits advanced to 64.7 and that of business activity to 83.2. Subsequently, and for the second quarter of this year, an approach to parity occurred in these indexes, in that the index of business profits advanced to 82.4 while that of business activity rose to 88.5.

Compilations made by the National City Bank show that the net profits (less deficits) of 2,010 industrial, public utility and financing companies amounted, in

1935, to approximately $2,541 million, which compares favorably with net profits of $1,789 million in 1934.

As the end of the administrative year approached, the financial crisis in France and continuation of the political tension in Europe again occasioned anxiety in this country. That anxiety was reflected in the securities markets and in business. Nevertheless, industrial operations rose 7% during the first quarter of 1936 and about 12% in April, which carried the volume of production to the highest level since the Spring of 1930.

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936/37

Report of the President

May, 1936
May, 1937

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New York Stock Exchange

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The Governing Committee,
New York Stock Exchange.

Gentlemen:

There is submitted herewith a report for the administrative year ended May 1, 1937, containing a brief resume of some of the more noteworthy developments in security markets and in the Exchange organization during the period under review.

In submitting this report I entertain the hope that the members of the Exchange may find it interesting as the record of a cooperative enterprise in which they are mutually engaged.

It is important that our members acquaint themselves with what has been accomplished, with what their officers are striving to do, in order that they may, from their own knowledge and experience, continue to contribute to the development of the Exchange and to its essential usefulness in the national economy. As with any mutual association, the progress achieved can not rise above the sum of the contributions of its members.

Governmental Regulation

For the sake of emphasis, I should like, in a foreword, to discuss the matter of governmental regulation of securities markets, which has been of paramount interest during the year. The Securities and Exchange Commission has been active in the performance of the duties delegated to it by various legislative acts. Many suggestions or recommendations of the Commission regarding the improvement or modification of business functions or of supervisory procedure have received

the thorough consideration of the Exchange and its standing or special committees and have been the subject of extended discussion between representatives of the Exchange and the Commission. Other questions have been from time to time under discussion with the Board of Governors of the Federal Reserve System who were charged under the Securities Exchange Act with the supervision of credit employed for the purchasing and carrying of securities.

One result of these discussions with governmental bodies was the action of the Exchange, in April, 1937, in adopting the so-called "daylight" margin rules prohibiting members, firms and partners from assuming at any time through Exchange transactions a position in listed stocks which could not be carried for a period under existing margin regulations. Similarly, the standards applicable to dealings by specialists under existing rules were clarified by instructions issued by the Committee on Odd Lots and Specialists, further defining the specialist's function and the relation of his course of dealings to the maintenance of a fair and orderly market. The Exchange also, after discussions with the Board of Governors of the Federal Reserve System, assumed the responsibility for the supervision of so-called "three-day riding," i.e., cases where attempts were being made by customers to satisfy the margin requirements of Regulation T by the sale of previously purchased securities within the time allowed for deposit of the necessary collateral. In this matter a proposal of the Board was first under consideration, rendering it unlawful for a broker to effect a purchase for a customer until the full required margin had been deposited. But recognition was given to the practical necessities of the securities business, and an Exchange requirement of reports from all houses carrying margin accounts was substituted. The cooperation

of member firms was obtained to terminate the practice of "three-day riding," where it existed. The reports, covering demands for margin and the methods by which they are met, are carefully scrutinized by a special staff of ten or more employees of the Business Conduct Committee.

Other matters are under discussion with governmental authorities at the present time and still others undoubtedly will be, as problems arise. The Exchange has entered into such discussions, and will continue to enter into them, in a spirit of sincere cooperation looking to the maintenance of desirable standards for the conduct of business in securities. As a part of such cooperation members and member firms are regularly supplying for government agencies an enormous amount of statistical and other information relating to various aspects of their business. Reports are being filed on more than 25 different forms, some on a daily and others on a weekly, monthly or irregular basis. At the present time reports are being submitted by members and firms at the rate of approximately 150,000 a year, not including the responses of members and firms to requests by government agencies for data for "special" studies.

While governmental regulation of securities exchanges is undoubtedly in the experimental stage, the obligation of those charged with the administration of the Securities Exchange Act is to do so in the true public interest. The true interest of the New York Stock Exchange is identical with the true public interest. This, I think, is generally recognized.

For this very reason, I cannot refrain from pointing out that too many rules like too many laws, may result in laying unnecessarily restrictive burdens on the many for the sake of disciplining the few. I am fearful that, in an effort to cure what might be termed sporadic evils,

undue restraints are being placed upon normal, proper action, thus creating abnormal market conditions.

Evidence accumulates that the quality of the market has been seriously affected. With much concern I note the continuance of narrow, illiquid markets in which wide spreads between bid and asked quotations prevail and in which comparatively small volumes of buying or selling create undue fluctuations in prices. Almost daily, situations are called to my attention wherein it is impossible to buy or sell reasonable amounts of stock at reasonable prices. Orders which, a few years ago, could have been executed within a few minutes or a few hours now often require days and sometimes weeks, with resulting increased risk to the owner. We are told that much business has been diverted to capital centers in other countries where freedom from restriction and easier credit conditions prevail. I know that banks and other financial institutions are giving intensive study to conditions prevailing in the security markets.

Factors other than government regulation, notably the tax on capital gains, have their effect on present market conditions. But I believe that to the extent that excessive regulation stifles individual initiative, intimidates and confuses honest men so that they are unable to determine how to act when swift action is essential, or imposes undue credit restrictions, such regulation is not in the public interest.

That good has resulted from government supervision and regulation is granted. However, the time is here when we should assess losses against gains. If the result indicates that a broad and liquid national market is being impaired so that it does not function freely, it follows, of course, that it may cease to function in time of stress. Then, indeed, the public interest is being harmed.

This is not said in a fault-finding spirit. We of the

New York Stock Exchange are in sympathy with the endeavor to promote the public welfare by those who are charged with the administration of the Act of 1934. We see, however, grave danger if regulation is carried to the point where the essential public service rendered by a broad, liquid market is destroyed.*

Business and Financial Developments

The year ending on May 1, 1937 was marked by broadly advancing trends in the major divisions of our economic life. The agricultural areas were more prosperous than they had been in the preceding years; the levels of industrial production advanced nearly twenty per cent; the volume of employment, the indices of payrolls, the movement of freight, the volume of retail trade, and the total national income all advanced to substantially higher levels. Most encouraging in this record of recovery was the long delayed improvement in the output of the heavy goods industries, notably in iron and steel, and, to a lesser extent, in building construction.

Various financial data also exhibited advancing trends. Deposits in reporting banks rose to new high levels, commercial loans expanded, gold reserves increased to the point of embarrassment, and money in circulation, with due regard for seasonal fluctuations, continued to increase.

Commodity Prices

Among the more significant developments were the advances in wholesale prices. Farm and food product

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*Appended to this Report is an analysis of the economic services rendered by free securities markets, based on studies made by a Special Committee.

prices experienced for several years a broadly advancing trend in response to droughts and governmental restrictions on agricultural production. Average wholesale prices other than those of farm and food products, on the contrary, had for nearly three years prior to July, 1936, been remarkably stable. In the latter part of 1936 they began to advance at a rate of approximately one per cent a month. This broadly signified that excesses in readily available low cost capacities to produce goods had largely disappeared. This indicates, in turn, that further substantial progress in recovery may depend upon the expansion of productive capacity, and the replacement of the accumulated shortages in productive wealth resulting from the long depression.

Security Markets

In this setting of substantial recovery the basic data of security markets have shown mixed trends. Listings and market values have increased, volume of transactions declined, and the use of credit has been sparing.

Listed Shares, Market Values and Member Borrowings

	Shares Listed	Market Value	Member Borrowings in N. Y.
May 1, 1935.....	1,301,900,400	$33,548,348,437	$804,565,448
May 1, 1936.....	1,336,686,499	47,774,402,524	1,063,950,736
May 1, 1937.....	1,386,653,884	57,962,789,210	1,187,279,384

During the administrative year there was a net addition to the shares listed of 49,967 thousand shares, a gain in the list of 3.74 per cent, as compared with a gain of 34,786 thousand shares, or 2.67 per cent during the previous administrative year. The market value of shares listed increased by 21.3 per cent, as compared with a gain of 42.4 per cent during the preceding administrative year.

Use of Credit

At the close of the year under review, Stock Exchange members were borrowing $1,187 million dollars in New York. The average of these borrowings during the year was $1,030 million, or 1.03 per cent of the average market value of all listed shares and bonds. This compares with the average borrowings of $863 million in the preceding year, which represented 1.04 per cent of the average market value of stocks and bonds listed in that period. Borrowings of members in the pre-depression period were four to five times as great in relation to the market value of securities listed as the borrowings during the past two administrative years have been. The market has remained eminently free from the excessive use of credit in the purchasing and carrying of securities.

Volume of Trading

While the number of listed shares increased and prices of securities generally advanced, the volume of transactions decreased in the recent period, as compared with the preceding one. Full lot reported volume decreased

Volume of Trading in Stocks (Blotter Dates)

Year Ending	Total Reported Shares	Total Reported and Non-Reported Shares (including odd-lots)	Money Value of Total Share Transactions
April 30, 1936.....	525,927,086	717,979,031	$18,834,126,475
April 30, 1937.....	471,827,581	657,295,344	21,375,348,108

by 10.3 per cent, and total volume, including odd-lot, error and non-reported "stopped" sales, decreased from 717,979 thousand shares to 657,295 thousand shares, or 8.5 per cent. The money value of share transactions, however, increased 13.5 per cent as a result of the higher price level prevailing during the latter period.

The shrinking volume of transactions in the face of advancing prices and advancing business trends is abnormal and gives rise to the concern about the breadth of the market to which I have already alluded. It has become increasingly difficult for investors to buy or sell substantial amounts of stock without unduly affecting prices. This development can, of course, be attributed to no single element, but among the contributing factors one may undoubtedly include various shocks to general business and investment confidence, the capital gains tax, the severe restriction of credit for the purchasing and carrying of securities, numerous regulations designed to restrict the activities of short-term dealers and of corporation officials in the purchasing of the securities of their own companies and the restrictions on short selling.

Types of Stock Sales

As a result of the compilation from members' books of the total volume of shares sold on the Exchange, and the money value thereof, for the purpose of determining fees levied on the Exchange under the Securities Exchange Act of 1934, it has become possible to determine with reasonable precision the extent of various types of stock sales on the Exchange. Of the total sales during the administrative year, 471,828 thousand shares, or 71.8 per cent represented round-lot reported volume and 138,883 thousand shares, or 21.1 per cent represented odd lot transactions, and the balance, or 7.1 per cent, represented the non-reported full lot transactions, mostly of the "stopped" sales type.

Members' Transactions For Own Account

During the administrative year, members' full lot purchases plus sales for own account averaged 20.6 per cent of the total full lot purchases and sales on the

Exchange. The total of Exchange purchases and sales is taken as equivalent to twice the volume of sales, to establish comparability with the sum of members' purchases plus sales for own account. Specialists' transactions for own account averaged on this basis 8.9 per

MEMBERS' FULL LOT TRANSACTIONS FOR OWN ACCOUNT
Number of Shares

	Purchased	Sold	Total
Specialists in Stocks in Which Registered as Specialists.....	46,054,010	46,172,510	92,226,520
Other..... Initiated on Floor*	35,591,703	36,708,370	72,300,073
Initiated off Floor*	22,392,196	26,707,168	49,099,364
TOTAL.....	104,037,909	109,588,048	213,625,957

*Exclusive of odd lot dealers' offsetting round lot transactions.

cent of total full lot purchases and sales; other own account transactions initiated on the floor averaged 7.0 per cent, and initiated off the floor 4.7 per cent. Members' sales for own account exceeded members' purchases during the year, by approximately five and one-half million shares. The maximum ratio of members' transactions for own account to Exchange full lot transactions for any month during the administrative year was 22.0 per cent and the minimum was 19.7 per cent. This represents a remarkably constant proportion of the total in view of the substantial variation which occurred in the monthly volume of Stock Exchange transactions. The largest monthly volume of Stock Exchange share transactions during the administrative year was nearly three times that of the smallest. This suggests that members' dealer transactions are a fundamental service element in the structure of the market,

drawn upon in proportion to total business done, rather than an unrelated independent element.

Transactions For Foreign Accounts

According to Treasury Reports, purchases and sales of domestic securities for foreign accounts executed in this country between April 29, 1936, and April 1, 1937, an eleven-month period, amounted to $4,237 million. Purchases for foreign account exceeded sales by $510 million. These figures include both stocks and bonds and orders executed elsewhere than on this Exchange.

The total of purchases and sales, however, was equivalent to 9.5 per cent of the money value of purchases and sales of shares and bonds on the New York Stock Exchange during the same eleven-month period. The net purchase of $510 million was equivalent to 2.3 per cent of the money value of share and bond purchases on the Exchange in the same period.

The Bond Market

In the bond market the par value of total transactions (reported plus non-reported) during the administrative year was $3,764 million, as compared with $3,809 million for the preceding administrative year. The money value of bond transactions was $2,992 million for the recent period, and $2,902 million for the preceding period. The par value of bonds listed on the Exchange increased from $44,223 million on May 1, 1936 to $47,058 million on May 1, 1937.

Capital Financing

According to the records compiled by the Commercial and Financial Chronicle, new corporate capital issues, exclusive of those of investment trust and holding companies and for refunding purposes exhibited marked increases on a percentage basis in the past administrative year as compared with the preceding one, but still remain

at levels less than one-third of those prevailing during the years preceding the depression. New stock issues in this category amounted to $469 million compared with $115 million for the preceding administrative year, and new bond issues amounted to $914 million compared with $518 million during the preceding period.

During the administrative year listed companies obtained $463,494 thousand in new money through the issuance of rights to subscribe to offerings of securities. This compared with $130,460 thousand in the preceding administrative year, and represents a reviving utilization of a service available to corporations through having their securities listed on an organized exchange.

Capital Financing Required

Of fundamental concern is the question of whether thin, inactive and illiquid markets are adapted to the floating of the large volumes of new corporate issues necessary for the rebuilding and expansion of productive wealth long deferred during the depression, and which the continued welfare of the country now urgently demands. In view of the long depression years in which there was almost no new financing for corporate expansion and in view of the recently enacted earnings tax which impels corporations seeking funds for expansion to have recourse to the capital markets instead of reinvesting part of their earnings, it seems clear that a volume of new issues at least comparable with, and probably much greater than, those of a decade ago would be desirable.

Effect of Restrictions

Regulatory restrictions on the employment of credit in the purchasing and carrying of securities may have an important bearing upon the degree to which the needed volume of new corporate issues may be floated. In terms of well established precedents, restrictions on

the employment of credit for security purchases are extraordinarily stringent. The origin of such restrictions in an effort to preclude a recurrence of market developments similar to those which occurred in 1929 can easily and sympathetically be understood. It now seems clear, however, that such restrictions, while they may have limited public participation in the market, have not prevented rapid increase in market prices, which, in percentage, have exceeded those occurring during the 1926-1929 "bull" market. Credit restrictions, on the other hand, may prove to be an obstacle to the issuance of new securities which ordinarily are carried, with the aid of credit, through a period of "digestion" or "seasoning" by the more speculatively minded portion of our population.

Governmental Influences

A review of developments in the past twelve months would not be complete without mentioning certain important events which have had or may have either direct or indirect effect on the securities markets. One of these developments has been the Federal Reserve Board action in raising to the maximum permitted by law the percentage of deposits required to be maintained as reserves by member banks. This was explained as a measure to place the Reserve authorities in position to exercise control over the expansion of bank credit through open market operations should such exercise of control seem advisable. For a number of years the importations of gold and silver have been primarily responsible for expanding the reserves of banks to amounts far beyond legal requirements. In the early part of 1936 excess reserves of member banks amounted to approximately $3 billion. By increasing reserve requirements, excess reserves were reduced to about 1.8 billion in the summer of 1936. Further increases in

1937 reduced them to approximately $900 million, or to a level where Reserve Bank open market operations would have substantial effect.

A second development has been the action of the Treasury Department in sterilizing imports of gold since December of last year. The process of sterilization, like the raising of reserve requirements, is designed to prevent banks from accumulating excess reserves. Under the sterilization program the Treasury issues interest bearing obligations and uses the proceeds to purchase imported gold, thus preventing the latter from being deposited with banks and swelling their reserves. By May 1, 1937, $572 million of gold had been sterilized in this fashion, and, as this is written, the figure has risen to over a billion dollars. These measures preparing the way for restrictions on the expansion of bank credit have as yet had no important effect in tightening credit or short-term interest rates. They did, undoubtedly, influence the willingness of banks to buy and hold Government bonds. In December reporting member banks held approximately $10½ billion in U. S. Government direct and guaranteed obligations. By April of 1937 these holdings had been reduced by approximately one billion dollars. Accompanying this decline in bank holdings of government bonds, sharp recessions in the prices of government issues developed. These reductions of government portfolios reduced the total volume of bank credit outstanding. On the other hand, increases in commercial loans in part offset this decrease.

Perhaps the most important of these developments was the regulation of the Federal Reserve Board limiting the amount of loans which banks and brokers may grant for the purpose of purchasing and carrying listed stocks to 45% of their market value. This represents an unprecedented denial of the nation's credit resources to an

extensive and important area of economic life. It is in marked contrast to public credit policies with reference to agricultural and long-term non-productive real estate loans. While statistical proof is not available, it is well known that this restriction on securities credits has resulted in the transfer of trading activity in American stocks to foreign markets, where credit restrictions are less stringent.

Security Frauds

It is appropriate again to remind our members of a continuing duty to protect inexperienced investors against the ubiquitous security racketeer. Criminal operations can never be abolished by legislation. Consequently society must be constantly on guard to protect itself through education and through cooperation with law enforcement agencies.

Similar experience in Great Britain gives ample testimony to the necessity for continual and relentless war against swindlers. Recently the British Board of Trade, in a public warning, directed attention to the remarks of Mr. Justice Finley who, in passing sentence upon certain stock swindlers, said:

> "These cruel and heartless frauds had been rendered possible by the fact that the public had been willing to believe the things said to them. If only, when they received circulars of this sort, they would consign them to the only proper place—the waste-paper basket—and if they would only take advice with regard to their investments from their bankers or members of the Stock Exchange, this sort of fraud would cease to exist, because it would cease to be profitable."

Our position in the investment field imposes upon us in our main and branch offices, everywhere, the duty of reporting to the appropriate authorities information with respect to swindling operations. I strongly recommend that our firms, when in doubt as to how to proceed, seek through their main offices in New York the advice of the Better Business Bureaus.

In its report for the year ending May 1, 1937, the New York Better Business Bureau said:

"The security swindlers and financial charlatans that lurk on the fringe of respectable business are ever ready to seize an opportunity to fatten their own pocketbooks at the public's expense. In the current revival of popular spending and the return of general confidence they have seen their opportunity.

"The devices by which the swindler of today makes off with the savings of the unwary differ only in details from the methods used in the past. The up-to-date charlatans have added modern refinements to disguise their schemes and make them more effective, but in substance they still rely on the same old tricks.

"The one sure way to outwit the stock swindler is to observe the Better Business Bureau's motto—'Before you invest, investigate.' The Bureau has in its files protective information, accumulated during fifteen years regarding thousands of firms and individuals, honest as well as questionable, which it provides freely without charge to all who inquire."

I am confident that representatives of Stock Exchange firms recognize the imperative necessity of cooperating with independent fraud-fighting organizations and with public authorities in the enforcement of both State and Federal anti-fraud laws.

The Work of Committees

Committee on Stock List

During the administrative year, the Committee on Stock List adopted or recommended to the Governing Committee a total of 360 listing applications. Approximately 130 million shares of stock and 7½ billion dollars of bonds and other obligations were authorized for listing during that period. The number of listing applications adopted represents an increase of approximately one-third over the number adopted in the preceding administrative year.

On May 1, 1937, there were 1,386,653,884 shares listed on the Exchange as against 1,336,686,499 shares listed as of May 1, 1936. The net increase for the year was approximately fifty million shares, or 3.7%. The dif-

ference between the gross number of 130,000,000 shares authorized for listing and the net increase of 50,000,000 in the number of actually listed shares, is accounted for chiefly by the facts that the first figure represents both issued and unissued shares authorized for listing and that the second figure represents the net increase in actually listed shares, taking into account reductions in the share list caused by retirements, redemptions and strikings from the list.

On May 1, 1937, there were $47,058,334,548 par value of bonds listed on the Exchange as against $44,222,956,661 par value listed as of May 1, 1936. The net increase was therefore about 3 billion dollars, and it exceeded 6.8%. The difference between the gross increase of 7½ billion dollars par value of obligations authorized for listing and the net increase of 3 billion dollars par value in listings is accounted for chiefly by retirements, redemptions, and maturities, and by the fact that two large issues of the United Kingdom, aggregating approximately 2 billion dollars were removed from the list in May, 1936.

During the year under review, the Committee on Stock List adopted several applications for "when issued" trading in cases where facilities for such trading on the Exchange appeared desirable in the public interest. Forty issues of "rights" and two convertible bond issues were admitted, during the period, to "when issued" trading.

The rapid development of certain relatively new businesses, such as the aircraft manufacturing industry, and recent legislation, such as the Federal Surtax on Undistributed Profits, have created important new problems in corporate procedure and accounting affecting listed corporations, their reports to stockholders and the listing requirements of the New York Stock Exchange.

The Committee substantially revised the standard form of its listing agreements in September, 1936, and it has appointed several sub-committees to consider the advisability of adopting new listing requirements, including a Sub-Committee on Bond Indentures and Trustees for Mortgages and a sub-committee to study the desirability of revising the present proxy rules of the Exchange. As a result of discussions at the time of the appearance of representatives of the Exchange before a Sub-Committee of the United States Senate Committee on Interstate Commerce, a sub-committee was also appointed to consider questions pertaining to the listing of holding companies' securities. Substantial progress has been made by these sub-committees in the subjects they have had under consideration.

The Committee has also restudied its policies with respect to the listing of preferred stocks, the removal from the list of small stock issues, proposed regulation of the association of member firms with management type investment trusts, and other matters. In cooperation with the accounting profession, listed corporations and others, the Committee has recently given attention to various current questions of accounting and reporting to stockholders, including the following: proper methods of reflecting in reports to stockholders differences on purchase and resale of companies' own securities, the disclosure in annual reports of the amount of Federal Surtax on Undistributed Profits, accounting for stock issued in connection with recapitalizations of listed companies, and the requirement of the approval or confirmation by stockholders of write-offs of operating deficits by charges to capital surplus.

The Committee on Stock List has moved to more commodious quarters in the 24 Broad Street Building, thus making available to a tenant valuable space in the 11 Wall Street Building.

Committee on Management and Personnel

The adoption of the Federal Social Security Act made necessary a revision during the year of the insurance and retirement plans of the Exchange and its affiliated Companies. Months of study were required to formulate a plan under which, in conjunction with the Federal old-age retirement plan and the plan of unemployment insurance, employees would receive substantial benefits as formerly.

Job and wage studies have been made, and are being made periodically, for the purpose of determining vocational fitness and fair wages. A substantial number of increases have been granted based on promotion, merit, and length of service coupled with merit.

The major departmental changes, consisting of grouping several related committees on the eleventh floor, to which I referred in my previous report, have been completed and have proven entirely satisfactory from a managerial and operating standpoint. Minor departmental changes since undertaken included a reorganization of the Division of Records and Investigations—which has enabled this department to handle an increased volume of work and at the same time to reduce its cost. There is now under consideration a project to collect in a Division of Central Records all files of the Exchange except those which are in daily use by the various departments.

The Medical Department, which comes under the jurisdiction of this Committee, is operating more effectively and at reduced cost. The scope of physical examinations has been increased with good results, especially in the early discovery of curable diseases. Evidence of increased efficiency is seen in the gratifyingly low record of absences due to illness notwithstanding the severity of the grippe epidemic of last winter.

Number of Employees

The number of employees as of May 1, 1936, and May 1, 1937, are given below:

Number of Employees

	May 1, 1936	May 1, 1937
Stock Exchange employees, office	494	537
Stock Exchange employees, Floor	993	1,000
Stock Exchange	1,487	1,537
Quotation Company employees	139	145
Building Company employees	374	374
Stock Clearing Corporation employees	324	335
Safe Deposit Company employees	13	11
Total	2,337	2,402

It is interesting to note that 140 employees have been with the Exchange for more than 20 years: 13 of these for more than forty years.

Committee on Quotations and Commissions

Closer contact with out-of-town offices was effected by the Committee during the past year through the medium of visits by its traveling representative. Seventy-five cities in eleven states and 613 offices of members were visited. Reports of unusual situations and problems in various communities were received. The Committee plans to increase its staff available for this type of contact work.

During the past two years the Committee, under the powers conferred by an amendment to the Constitution, has adopted additional regulations with respect to the admission of partners to member firms. Detailed information in regard to partnerships has been issued to the membership. Under the regulations all partnerships and partnership agreements must be submitted to the Committee on Quotations and Commissions.

Committee on Business Conduct

In recent years the Committee on Business Conduct has been responsible for the administration of many Exchange rules, for the supervision of the financial condition of members, for the investigation of complaints by members and non-members, and for the observation of market activity and price changes of listed stocks. This important part of the administrative work of the Exchange has been further developed both as to scope and method. To this work there has in the past year been added the responsibility of administering the new rule requiring members and their partners to keep commitments fully margined at all times and the rule against "free riding" referred to earlier. This rule obliges members carrying margin accounts to report all transactions in connection with which initial or additional margin is required and to indicate the manner in which such margin is supplied.

The increased supervisory work of the Committee made necessary a material increase in the personnel of the Committee staff and an addition of seven accountants to the staff of the Comptroller's office. This brings the total number of accountants in this department to twenty-three.

Committee on Customers' Men

There were registered with the Committee, as of May 1, 1937, a total of 1,138 office managers, 172 assistant managers, 5,083 customers' men, 408 junior customers' men, 717 service men, 2,086 securities salesmen, 797 securities traders, and 102 traveling representatives. Of these, 15 managers and 26 customers' men were registered from Canadian offices and 50 managers and 52 customers' men were registered from other foreign offices.

During the administrative year 799 applicants took

the customers' man examination; and 717 of them succeeded in passing it. Applicants who successfully pass this examination give evidence of fundamental knowledge of the section of the securities business in which they are most active; such applicants, as they subscribe to the business standards laid down by the Committee, by signing the application for registered member firm employees, pledge their cooperation in the application of a rigid code of business conduct as promulgated by the Exchange.

Committee on Foreign Business

The Committee on Foreign Business has continued its work of surveying the operations of member offices abroad with a view to promoting free and fair competition among members and the brokerage fraternity in various countries. The Regional Advisory Committees of the Committee on Foreign Business in Amsterdam, London and Paris have been of valuable service in advising regarding local conditions, the character and qualifications of applicants for positions with member firms abroad, and in supervising the examination of such applicants where required by the rules.

On March 15, 1937, the Committee issued rules regulating the employment of two new classifications of registered employees, i.e., managers of foreign activities and foreign representatives.

Committee on Odd Lots and Specialists

The Committee has continued the program instituted in the preceding year of thorough explanation to the entire Floor membership of the principles underlying the trading rules, particularly those adopted in May, 1935. The series of educational meetings with groups of Floor members was continued until the entire active membership had participated. The Committee further expanded its supervisory and disciplinary activities to

assure the understanding by the members of the rules and their observance. It should be said that in this work the Committee has received the wholehearted and sympathetic cooperation of members.

To centralize the supervision of these and related rules in this Committee, it was determined that the constitutional powers of the Committee should be enlarged by defining and extending its jurisdiction and granting it direct rule-making and disciplinary powers. Accordingly, an amendment to the Constitution was adopted, effective on January 27, 1937, under which the Committee was granted jurisdiction over the Floor activities of all members trading for their own account or otherwise in stocks and was further given power to adopt regulations, to require their enforcement and to assess fines for violations.

During the year, as a result of discussions between representatives of the Securities and Exchange Commission and the Exchange, codification of certain interpretations of the rule relating to dealing by specialists was deemed desirable. Pursuant to these conversations, there were issued, on April 28, 1937, instructions to specialists embodying standards for the performance of the specialist function and the maintenance of a fair and orderly market. The Committee has also devised a tentative program for more effective supervision of member activity on the Floor and has taken steps to coordinate its activities with other Committees to avoid duplication.

As a related matter, various members of the Committee have joined the group of officials who have visited out-of-town cities under the auspices of the Committee on Public Relations. They have addressed meetings of the Senior Order Clerks Association, and in other ways they have participated in the dissemination of information concerning the policies of the Committee.

Future plans, in addition to those mentioned, include continued study of Exchange trading problems and their improvement wherever possible, and the inauguration of a new series of meetings.

Committee on Securities

Substantially one-twelfth of all corporations having stocks listed upon the Exchange offered holders of their securities rights to subscribe during the year ended April 30, 1937, and trading privileges were granted to 60 such issues. During the preceding administrative year there were 23 right offerings. Comment has been made elsewhere in this report on the values of the subscribed securities.

An elaborate program was completed in June, 1936 to inform fully corporate officials and counsel of the procedure required to issue right warrants and securities, and to secure trading privileges for them. An informative pamphlet was published in which the required steps were outlined; and individual conferences were held with the corporations' representatives in which assistance was rendered in working out the complicated time schedules necessary to synchronize the Exchange's requirements with those of the Securities and Exchange Commission. As a part of this work warrants were registered for "when issued" trading to provide continuous open markets for such securities throughout their effective lives.

Approximately 700 rulings were issued by the Committee during the administrative year. These rulings covered rights to subscribe, offers to exchange securities, cash and stock dividends and distributions, due-bills, split-ups, "when issued" contracts, procedure for trading in specific securities two or more ways, forms of certificates for shares and bonds comprising good deliveries, settlements of transactions by deliveries of

equivalent securities, proxies, problems arising under sections 77 and 77B of the Bankruptcy Act, and other items.

Committee on Public Relations

There is a noticeable improvement in the position of the Exchange before the people. Correct information supplied by the Exchange is helping to create an intelligent understanding of the essential character and usefulness of the market which it provides. However, I have no illusions as to the necessity for a well devised informational program which must be consistently maintained for many years to come. This seems to me the only possible way to correct the misconceptions which appear from time to time concerning security markets and which, in large part, are a heritage of the depression. A gratifying curiosity on the part of the public with respect to the Exchange and its operations makes our task easier.

Much of the change in public sentiment must be credited to the cooperation of out-of-town offices with the Public Relations Committee. As a result of this cooperation the Exchange has been enabled in a personal way to explain the purposes, functions and facilities of the Exchange directly to important audiences throughout the country. Important gatherings have been addressed by your President during the year in a great many cities in widely separated sections of the country. In addition, talks by other representatives of the Exchange have been given in cities from Maine to California and from the northern borders to Florida.

Needless to say, our task in public relations requires the intelligent effort of Stock Exchange people everywhere. The plans of the Committee for the future are based on a widening employment of out-of-town cooperation in an extended program of field work.

Information in regard to the Exchange has been increased by a wide distribution of the pamphlet, "The New York Stock Exchange—Its Functions and Operations," published by the Committee on Public Relations and by the publication of an excellent manual of instruction in Stock Exchange practices, entitled "Stock Exchange Procedure," of which Dr. Birl E. Shultz, Dean of the Stock Exchange Institute, is the author.

Dr. S. S. Huebner of the Wharton School of Finance and Commerce, University of Pennsylvania, with the assistance of the Committee on Public Relations, published the "Survey of Stock Exchange Markets as a Subject for Instruction in American Universities and Colleges," and an "Outline of Collegiate Course on Organized Stock Exchange Markets." These publications, as their titles indicate, were designed to encourage and assist colleges in the introduction and extension of courses in Organized Securities Markets.

On invitation, the Exchange sponsored a round table on current problems of Business and Finance at the Institute of Public Affairs, University of Virginia, in Charlottesville, in July, 1936. The addresses delivered at these round tables were widely published and commented upon and added to public enlightenment with respect to the Exchange and the position it occupies in the national economy.

A realization that those who use the facilities of the Exchange were eager for detailed information as to technical aspects of Exchange procedure and the standards of business conduct which are imposed upon its membership, and other phases of the Exchange's operations impelled me to ask member firms to send to their customers a series of informative letters. These letters are being distributed to upwards of 600,000 customers each month.

Memberships

There were 61 transfers of Exchange memberships from May 1, 1936 to May 1, 1937; the prices ranging from a low of $89,000 on December 17, 1936, to a high of $139,000 on August 13, 1936.

As in the preceding year, no member was suspended for insolvency during the year under review.

During the Stock Exchange year 23 members died: Robert Glendinning, Cecil Lyon, Joseph L. Lilienthal, Wm. Rhodes Brandon, Henry L. Cabell, William Fahnestock, Howard Boulton, Seymour S. Guggenheimer, Dennis J. Pierce, William E. O. Bebee, Jacob W. Gutman, Louis Kaiser, Charles Hayden, Wm. Carroll Wilson, William B. Hibbs, Francis H. Norris, Charles Morgan, William J. Wollman, John F. Murray, H. V. D. Moore, Edward Allan Wood, Charles Sincere, Nathaniel King.

Finances

The consolidated income and profit and loss statements for the year ending December 31, 1936, showed a net profit of $172,768 as compared with a net loss of $209,325 for the previous year. Beginning with the first quarter of this year, the quarterly dues were reduced from $250 to $200 per member.

The total paid in salaries and wages was $4,043,102 or approximately 50% of the total expense. The salaries of the floor force alone totalled $1,504,466, a sum, incidentally, greater than the aggregate dues paid by members in 1936.

Taxes amounted to $872,742 as against $762,218 for the previous year, an increase of 14½%. It is interesting to note that the amount of tax per member was $634.70 or 63% of the dues paid by members last year.

Not to be confused with the foregoing taxes, are those collected by the Federal Government and New York State on the sale or transfer of securities. During the preceding administrative year about $67\frac{1}{3}$ million were paid to the Federal and New York State governments in respect of such sales and transfers, and during this administrative year the sales and transfer taxes amounted to a little more than $65.7 million. It has been estimated that more than 90% of those taxes are collected in this district.

Stock Exchange Institute

The emphasis on higher standards of customer service is demonstrated by the growing interest among employees of member firms in the courses given by the Stock Exchange Institute. Enrollments of firm employees were 50 per cent. greater than in the previous year and amounted to 86 per cent. of the total enrollment of 4,772. Especially gratifying was the enrollment of 848 out-of-town member firm employees for the correspondence course in "Work of the Stock Exchange."

Since the inauguration of the Customers' Man Examination on February 6, 1936, about 1,100 applicants have been examined.

Stock Clearing Corporation

The Stock Clearing Corporation, incorporated under the provisions of the Business Corporation Law, provides economical facilities for members of the Exchange to clear and settle contracts between them, and to deliver and receive stocks and other securities. The Non-Members' Department of the Corporation, open to Banks and Trust Companies, also increases the efficiency with which deliveries of securities and payments for them may be accomplished, through extension of the

Corporation's facilities to the settlement of certain Non-Member and Member transactions.

Even though the volume of transactions on the Exchange declined under that for the preceding administrative year, still more firms availed themselves of the Corporation's redelivery service through the Day Branch, and the number of Clearing Members remained unchanged.

In the Night Clearing Branch, the number of shares cleared (both sides including balances) in the administrative year totalled 1,742,220,400, valued at $52,386,-823,800; and these figures compare with 1,880,743,800 shares, and a valuation of $46,338,102,000 for the preceding year. Cleared issues totalled 679 on December 31, 1936, as against 630 at the end of 1935, and 549 at the end of 1934.

The volume of deliveries through the Central Delivery Department is best shown by the following statistics:

DELIVERIES

	1935-'36	1936-'37
Between Members:		
Certificates	7,668,479	7,378,204
Items	3,201,393	3,022,849
Users	72,875	72,309
Between Members and Non-Members:		
Certificates	2,615,549	2,398,536
Items	1,149,278	1,074,316
Users	61,958	62,057

During the administrative year, the Day Branch operations comprised 362,396,100 cleared shares, valued at $10,739,019,600; 16,792,867 non-cleared shares valued at $648,963,570.51; $3,090,780,000 par value of bonds, valued at $2,349,930,307.50, and $2,579,683,120.93 of loans paid, or a total including special clearances and non-members activities in the Central Delivery Department (one side), of $26,612,942,895.75. This total

figure compares with $26,011,151,849.59 for the previous administrative year. Certification eliminated during the year, amounted to $17,716,321,079.89 as compared with $16,510,519,623.97 in the 1935-1936 period. Bank clearance obviated for the year totalled $16,226,280,268.18 as compared with $14,457,933,586.16 in 1935-1936. The obviation of funds, which otherwise would have been required to settle the contracts handled by the Stock Clearing Corporation's Day and Night Branches, amounted in the administrative year to $24,676,380,010.62 as compared with $23,476,980,049.41 in the former year. Check reductions numbered 4,551,429 against 4,836,086 in 1935-1936. Thus the general increases in the money values represented in the Corporation's activities were not reflected in the volume of securities and checks handled during the administrative year, as the latter are geared largely to Exchange volume, which declined.

The Stock Clearing Corporation, in addition to its function of clearing and settling transactions, also continued to compile statistics regarding short sales and collected various reports for the Committees of the Exchange and for the Federal Reserve Bank. During the administrative year the Corporation received 16,706 reports from members and firms for the Committee on Business Conduct, and 77,667 reports for the Committee of Arrangements.

Stock Exchange Building Company

Extensive repairs to the pediment and to the lintels and adjacent stonework on the Broad and New Street fronts of the old Stock Exchange Building were completed in December, 1936. Two months of inspection and study were necessary before the work of removing the symbolic figures from the Broad Street pediment could be begun. The original stone figures have been

replaced with duplicate figures fabricated from copper sheet metal coated with lead.

Adequate ventilation of the Bond Room was another difficult problem involving changes in the old cooling system without interruption in its daily use. Changes in the cooling coils and ventilating ducts were made and a measurable improvement in the air condition of the Bond Room was accomplished.

Quotation Company

The recently redesigned ticker transmitting plant will utilize vacuum tubes in place of the present mechanical relays with a resultant improvement in signal reproduction and reduced maintainence cost.

A tape delay service has been developed enabling subscribers to tell the lateness of the tape at any given minute.

After two years of experimentation the Research Department finally devised a greatly improved system of reporting operations from the floor to the quotation room. Instead of returning to a plug at a station at the booth, the quotation page can now speak to the quotation room directly from the crowd in which he is working. By means of a coil of wire buried in the trading floor and a smaller coil fastened to his shoe he is enabled to speak through a chest transmitter and deliver bid and asked quotations to the operators on the 15th floor.

A thorough study has been made of the pneumatic tube system which plays a vital part in routing orders to their appointed stations on the Floor. Extensive data have been collected in regard to the speed of carriers in tubes, necessary vacuums and pressures, special valves, motor horse powers and tube-man efficiency preliminary to the design and development of a proposed central tube station.

Amendments to the Constitution and Rules

During the period covered by the Report, the Constitution and Rules of the Governing Committee were altered to provide, among other things, for:

(1) Authority for the Committees on Business Conduct, Customers' Men, Odd Lots and Specialists, and Quotations and Commissions, in addition to the Committees on Arrangements, Bonds, and Foreign Business already so empowered, to assess fines not exceeding $250 in certain circumstances;

(2) Extending the powers of the Committee on Odd Lots and Specialists by giving to it authority to supervise certain aspects of the conduct of business upon the Floor of all members transacting business in stocks;

(3) Extending the powers of the Committee on Quotations and Commissions with respect to persons proposed for partnership in member firms and with respect to partnership agreements;

(4) Prohibition of members of Committees voting or participating in deliberations with respect to listings or dealings in securities under certain conditions;

(5) A requirement that members or member firms carrying margin accounts for customers shall notify the Committee on Business Conduct of the fact;

(6) A requirement whereby members or member firms carrying margin accounts shall keep a daily record of initial or additional margin required because of transactions on such day; and the prohibition of the practice of liquidation to provide margin;

(7) A requirement that bond salesmens' headquarters shall not involve the co-occupancy with individuals in other lines of business.

The Exchange is fortunate in having literally thousands of representatives in cities all over this country who continually evidence their interest in its welfare and who loyally uphold its traditions. To these, and to the many who in person or by correspondence have indicated their interest, I make sincere acknowledgment.

I wish here to record my gratitude to the members of the Governing Committee and the Advisory Group and to the staff for their unfailing devotion to the interests of our institution. At sacrifice of time and convenience

these men give freely of their talents and experience for the sake of an ideal. No money could compensate them for the service rendered. I know that I am speaking for our entire membership when I tender them our grateful thanks.

Faithfully yours,

Charles R. Gay,
President.

Submitted to the
Governing Committee,
August 11, 1937.

SECURITY MARKETS AND NATIONAL WELFARE

An analysis of the economic service rendered by free securities markets, based on studies made by a Special Committee

Extended consideration has been and is being given, both without and within the Exchange, to the nature and desirable characteristics of the Exchange market for stocks. Security markets are an integral and long established element of the nation's economy, and earnest thought should be given to the development and maintenance of conditions under which they may prove most serviceable. Such thinking must be free of the prejudices which often color the views of both defenders and critics of securities markets in periods following major price advances or declines. This is more particularly true because security markets are among the most sensitive and highly organized of the natural evolutions of a complex society. It is the intention that this discussion, exploratory in some respects, shall be free from such prejudices.

Certain fundamentals, unfortunately too often overlooked, form the basis for any consideration of the subject. At the risk, therefore, of subjecting this discussion to criticism as elementary, reference to these basic matters must here be made.

That modern large-scale enterprise requires capital so large that no individual, banker or institution can supply it is a recognized truism. Stocks and bonds are devices for the accumulation of this necessary capital from the many, through which devices the profits and risks of enterprise are widely distributed among large numbers of people according to their resources. The distribution of securities makes available for productive purposes funds which would otherwise remain in sterile inactivity.

It is perhaps not too obvious to point out that the funds available for investment in stocks and bonds represent the accumulated *surplus* income of many people and institutions over and above actual current requirements.

The underlying incentive to invest surplus funds and to assume the accompanying risks lies in the natural human desire to protect the future and to increase that protection through the receipt of income on the investment and, particularly in the case of common stock investment, through the enhancement of principal value.

It is also elementary that the real wealth of a nation lies not in the savings of its people in the form of money or in the amount of gold which the nation or its people may hold. Real wealth, of course, consists chiefly of the nation's natural resources, the productive equipment by which these resources and the durable products of the production process are made generally available. It is by the expansion of productive capacity that real wealth may be enhanced, with accompanying greater production, lower prices, wider distribution of products and broader diffusion of increasing standards of living. This desirable expansion of productive capacity is normally attained, by the free and ready conversion into productive wealth of the savings of the people. By this conversion process, the nation's true wealth is increased and progressively higher general living standards are attained.

At the present time a point has been reached where expansion of productive capacity on a large scale is essential if advances in general living standards are to be sustained. For nearly eight years production has been far below normal and the creation of new productive wealth has been sharply curtailed. That important shortages of productive wealth exist is generally conceded. The maintenance and progressive improvement of living standards require the prompt making up of these shortages and the further expansion of the nation's wealth goods. Subnormal production of consumption goods in a depression period does not necessarily require subsequent supernormal production. The fact that the

nation has, in recent years, eaten less well and worn poorer clothing does not mean that it must now greatly expand its eating and dressing. But factories, machine tools, equipment, railroads, rolling stock, pipe lines and the like are built for use over long periods of time. Failure to maintain production in these wealth goods deprives both the present and the future of their beneficial utilization. The continued well-being of the nation, therefore, requires that shortages of these goods, resulting from periods of subnormal production, should be made up.

Estimates of existing shortages in productive wealth goods vary widely, but it is significant that all are large. It is, moreover, increasingly apparent that the nation's low cost capacity to produce goods is for practical purposes fully employed. Cumulative evidence of this fact is found in the recurring appearance of "bottle-necks" in the productive processes, the difficulty experienced by certain industries in filling orders received and by the general advance in commodity prices along a wide front beginning in the middle of 1936 and indicating a broad shift from buyers' to sellers' markets.

Against this background, it is difficult to draw any conclusion other than that government investment of deficit-created funds in non-productive consumption must be replaced by private investment in productive wealth. A nation which, with a large unemployed population, is producing goods at a level approximating existing capacity without provision for peak demands, but which is, in many respects, unable to produce normal quantities, must turn its energies to the creation of new productive wealth with consequent increase of output, advance of living standards and widespread reemployment. Enterprise should be encouraged and private investment—the willingness of owners of savings to assume the risks of legitimate business enterprise—

should, in such circumstances, be facilitated, not discouraged. It thus seems apparent that those who desire prompt absorption of the unemployed portion of our population and continuing advances in living standards should earnestly strive to promote conditions conducive to the ready transfer of individual and institutional savings into productive investment.

There can be little doubt that the one condition most essential to ready investment by the many in the productive wealth of the nation is the prompt convertibility of the stock or bond representing that investment into cash. Savings are accumulated to provide for the future, not for the present. Securities must to a maximum degree be convertible into cash, not only initially, but continuously thereafter. The investor must be able, to the maximum degree consistent with the type of property which he holds and the risks which he has assumed, to obtain the money equivalent at the time when his personal needs or desires make it advisable.

Plainly this convertibility must rest on ability to sell—to find readily and promptly a purchaser for the securities to be liquidated. The invested funds have been converted into productive wealth by the corporation. Its productive assets cannot be liquidated to provide the necessary individual withdrawal. Funds are invested irrevocably by *the people as a whole* in the creation of real wealth, a *one-way process* by which higher living standards and the public welfare are promoted. But the welfare of the *individual* requires the *two-way process* of investment and subsequent withdrawal by the only available means—resale of the security to another who has funds available for the purpose. Only to the extent that this process of withdrawal is readily available to the individual investor is his welfare reconciled with that of the nation to the degree necessary to promote essential investment in the development of national

wealth. Ready and prompt convertibility of securities into cash is fundamentally requisite to public investment in productive enterprise.

Moreover, since the only mechanism of withdrawal available to the security holder is that of resale, ready and prompt convertibility is rendered of particular importance by the inherently variable nature of security prices. Security prices are affected by many factors with which experienced financial observers are familiar, the evaluation of which is not susceptible to constant formula. Thus the outstanding body of securities tends continuously to increase as the wealth of the nation expands. Unlike prices for goods which are produced and used up, falling or low security prices do not result in diminishing the total supply of securities. Nor is the physical quantity of wealth represented by securities thereby diminished. Price declines in securities are not cushioned by shrinking total supply as in the case of many commodities. Moreover, the funds which have been invested in securities represent the accumulated surplus income of many people over and above their living costs. These funds are designed to be drawn upon promptly in case of need and may be drawn upon in magnified proportions compared with income fluctuations. Similarly, the funds available for purchasing securities are surplus funds, which may experience relatively wide fluctuations in amount as a result of small changes in total income.

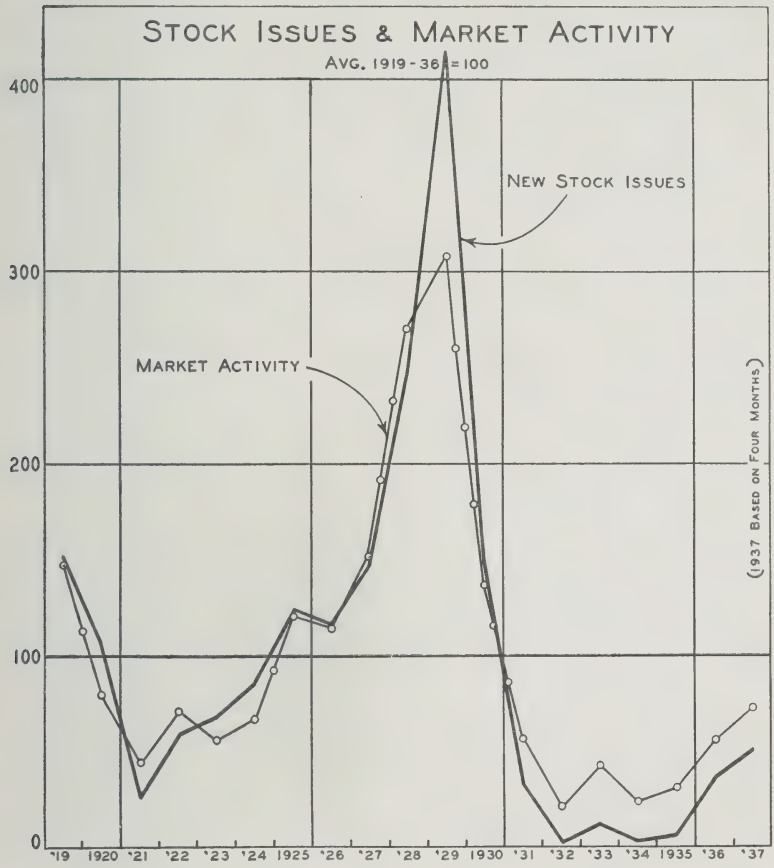
Other important elements making for price fluctuations are the highly optional or voluntary character of security purchases and the optional nature of many security sales. Psychological forces find prompt price expression to degrees not found in connection with most property. Many of the elements upon which judgment as to purchase or sale rests are themselves of highly variable nature. Corporate earnings represent relatively

small margins between large figures of costs and income, modest fluctuations in which are greatly magnified in profits or losses. Interest rates and returns on other possible investments also change. Developments within a particular corporation or within its industry or related industries or in government policy or in world conditions require continuing reappraisal. These and many other factors can quickly and completely modify the desirability of a stock or bond, or of all stocks or all bonds, as repositories for money savings. They are magnified in importance and influence in connection with stocks, ownership of which represents participation in the full benefits and also, which is perhaps not sufficiently widely recognized, in the full and great risks of enterprise.

Since stock prices are subject to wide fluctuations, and individual needs and desires as to withdrawal of invested funds and individual judgments as to the desirable time for withdrawal must vary widely, it is of the utmost importance to the investor to be able to withdraw his funds promptly upon making his decision. Delay exposes him to new risks inherent in the sensitive price of the property which he holds. To the extent that he must assume these additional risks of time, his willingness to contribute his funds to wealth-production is diminished.

The readiness with which securities may be sold obviously depends upon the quality of the market. It seems clear that the highest degree of convertibility is provided in a market which brings together at each moment the greatest possible number of competing buyers to bid against each other for investments offered for sale. Whether such a market possesses or may possess other less desirable characteristics (as has been suggested) is not now considered. There can be no question that in such a market the readiest and promptest convertibility is available.

If a relationship exists between the activity of such a market and the willingness of individuals to invest their savings in productive wealth through the purchase of new securities, and particularly stocks, it is a fact worthy of thoughtful consideration. There is historical evidence that a general relationship exists between the



breadth and activity of the market for stocks and the extent to which new securities for wealth production purposes have been marketed. No fair-minded person would assert that this evidence is wholly conclusive. But neither can the fair-minded person fail to be im-

pressed by the undeniable existence and closeness of the indicated relationship.

In the accompanying diagram there are charted annual records for the past eighteen years, beginning with 1919, of the activity of the New York Stock Exchange and of the volume of new stock issues, excluding those of investment trusts and holding companies and those for refunding purposes. The average for each set of data for the eighteen-year period has been taken as equal to 100. The data upon which the line representing new stock issues has been based are those compiled by the "Commercial and Financial Chronicle." The other line is an approximation of the dollar value of activity on the New York Stock Exchange, computed by multiplying the annual rate of turnover of the listed stocks by a price index. This is not to be taken as an accurate measurement of the dollar value of sales transacted on the Exchange. No such records are available over this long period. Nevertheless, for broad purposes of comparison, a computation of this sort is useful, and its accuracy is probably sufficient.

The notable thing about the diagram is the general similarity of fluctuations in the two sets of records, a similarity which has persisted substantially throughout the entire period. In 1923 market activity decreased slightly, whereas the volume of stock issues increased. In 1929 the volume of new stock issues was considerably greater than that which would have been expected on the basis of the market activity of that year. Aside from these two instances, the extent of agreement between the activity of the market and the volume of new stock issues has been sufficiently close to justify at least a tentative conclusion that a substantial increase in the volume of new stock issues is unlikely unless the breadth and activity of the present stock market show a substantial increase. This does not mean that a direct

causal relationship exists between the breadth of the market and capital flotations. It does, however, reveal a complete absence of historical evidence indicating that new stocks in substantial volume are likely to be issued in periods of market inactivity.

In the light of the long and deep depression in wealth production there can be little question that increase of new investment to a volume several-fold that of current levels, and continuation of that volume for a substantial period, is desirable. The influence of such an increase upon our pressing unemployment, relief and budgetary problems can hardly be overestimated. It is clear that these problems require careful examination of the place in a rounded recovery program of a freer and more active stock market or of existing or additional restriction on that market.

What then are the qualities which make for the existence of a security market best suited to the needs of continuing expansion of the nation's real wealth and free shifting of sterile money savings into productive investment? Plainly at a particular moment for the individual seller, the greatest number of competing buyers represents the best market; and for the buyer the greatest number of competing sellers. The seller is not concerned as to the purpose for which his stock is bought; nor does the buyer care how long the seller has held his shares. Maximum concentration of interested persons provides the highest possible degree of convertibility for both buyer and seller; and each is best served when many persons are in the market to buy the stock which is being offered or to supply that which is wanted.

It should not, however, be understood that maximum possible buying and selling of every sort are desirable. Volume of participation alone cannot be the test. Volume created for the purpose of and as a result of mis-

representation or manipulation is not to be justified, for reasons hereafter discussed, despite a possible contribution to convertibility. Volume created by undue use of the nation's total bank credit is similarly to be avoided. That these types of artificially created volume are essential to establish a desirable degree of convertibility of bonds and stocks represents a point of view which it is difficult to sustain and which it is not desired to sustain.

But if artificial stimulation of volume by uneconomic methods is not to be justified on the ground of additional convertibility thereby imparted to securities, neither is artificial restriction of the free, non-manipulative, competitive buying or selling of any person or group to be justified from any point of view.

A type of artificial restriction which has been urged in various forms in recent years has been the limitation of the activities of the short-term dealer and especially of such activity conducted by members of Exchanges. It is not unfair to characterize these proposals as artificial since the asserted need for restriction is not based on the prevention of manipulative methods. The proposals spring apparently from a belief that, regardless of methods employed, it is desirable that the amount of this type of dealing be arbitrarily reduced. It is therefore essential to a consideration of the type of market best adapted to serve the needs of the community to examine the place in and contribution to the market of the short-term dealer regularly engaged in that occupation.

As a matter of free competitive choice, individuals have been from time immemorial and will always be attracted to the market for any article which is in wide demand with the object of profiting by being on the spot to buy from the desirous seller and shortly thereafter to sell to a new buyer. The contribution of this element to the convertibility of any property into cash,

and particularly in the case of stocks, prices of which are so sensitive to fast-moving influences, is both real and important.

The stocks listed on the Exchanges represent an extraordinary range of economic activity and interest. For each there are in widely varying degree long-term purchasers and long-term sellers. That there will be in every instance a long-term purchaser whose wishes coincide with a long-term seller with reference to price, time, issue and amount, is a mathematical improbability, and, in fact, does not occur. The needs and desires of holders vary so widely that a market made up in this way could only result in wide fluctuations between sales. The holder required to sell 500 shares would have to accept a low price while shortly afterward the purchaser desirous of acquiring the same stock would have to pay a much higher price, though no economic factor had intervened. In such a market the chances of exact or close meeting of the needs and wishes of buyer and seller at a particular time would be small and the risks of ownership thereby increased. Inability of the seller to find a buyer would increase the likelihood that, during the incident delay, a variable economic influence would come to bear, making it impossible for the seller's idea of price to be realized. The greater the time element, the greater the risk.

The short-term dealer in a market, by being ready to buy or sell at the going price, bridges over the inconvenience of time and price and minimizes the risk of ownership. He outbids the indifferent buyer and undersells the reluctant seller. His act has the effect of transmitting through a span of time the urgent selling of one instant to meet the eager buying of another. He is the medium of the meeting of the eager buyer and the eager seller. He makes continuously effective at each instant of the period the longer term buying and selling

demands which, although they may be and usually are equalized over the period as a whole, are not synchronized each instant within it.

Suggestions for the restriction of this type of activity, except when directed at the use of buying or selling methods involving manipulation or misrepresentation, must rest upon the assumption that short-term dealing as such can or does prevail to an undesirable degree. Upon examination, however, it is difficult to understand how, uneconomic methods aside, such activity *can* exist in any undesirable degree. If the volume of long-term purchases and sales of securities, the disparities between them with reference to issue, time, price and amount, and the investment habits of the people, are accepted as inherent characteristics of the community in its particular stage of evolution, the area in which short-term dealing may function should be thereby automatically delineated.

Within that area the volume of desirable professional short-term dealing is fundamentally self-determinative by profit incentive and competition, as is the number of merchants who intervene between producer and consumer of a commodity. Both are properly determined in the same way by profit and competition. Inadequate performance of the function creates profit opportunities which attract capital and enterprise. Too great a devotion of capital and enterprise to the function intensifies the competition, diminishes the profit, and forces out the less efficient. Profit prospect is the magnet and the spur; competition is the guarantee of just prices and best performance. Between these forces, and through them, the degree of activity likely to produce the best results for the whole will be attained. Recognition has long been granted in the traditions of American life to the free play of competition and profit as desirably directive influences in the distribution of capital and

enterprise. There seems to be no valid reason to believe that they are less applicable in this case than in others or that either artificial stimulation or artificial elimination of competition would not be more harmful than helpful to the public interest.

The short-term dealer does not, and cannot be expected to undertake, altruistically, to fulfill the function of linking together intermittent price situations. The function is performed naturally and involuntarily as a by-product of his profit pursuit. His success in this pursuit, whether he is a member of the Exchange or a non-member, in the stock market or any other market, is dependent upon his ability to judge the influences of current and coming events, an ability in the case of members developed by long and sharply competitive experience. His purchasing or selling tends to adjust the price towards that which in his judgment represents the correct price in view of the forces brought to bear.

Suggestions of restriction of short-term professional dealing activities are not novel. They have a natural and wholly understandable origin in the widespread public disappointment attending price deflations. Since the millions of investors who make up the market seldom see or know each other, they do not reason that deflations reflect their own unwillingness as a group to purchase or hold stocks. Instead they blame the "market" as such and narrowly identify it with those known to be professional brokers and dealers. Against these individuals popular resentment is easily directed, with prejudiced and unthinking demands for arbitrary restriction. It is a curious but understandable case of seeking to prevent inflation and deflation, not by correcting their causes, but by restricting the machinery which registers them. This has happened many times in the past. But, curiously enough, it appears to be true that no important investigation by an official

commission, either here or abroad, has ever found non-manipulative short-term dealing to have been fundamentally responsible for major price inflation or the subsequent deflation. The more usual conclusion has been that it is a wave of activity by the long term public "investor," inspired by influences foreign to the market itself, which produces these results. Restriction of the short-term dealer then seeks justification on the ground that his transactions either have no important price effects and are therefore an uneconomic burden on the market, or that they do have minor effects on prices which are assumed to be against the public interest, albeit produced by the very group whose judgment of relevant influences is the most highly trained.

This is unfortunate and in some historical instances has been tragically unfortunate, because as a factor providing convertibility of securities in the market, the importance of non-manipulative professional short-term dealing can hardly be overestimated. Without a substantial measure of this type of participation the ability of the market to supply the freedom of conversion between money and stocks necessary to the investment of sterile money savings in the nation's productive wealth must be seriously curtailed. Establishment of the desirable measure of non-manipulative professional dealing seems to the close and experienced observer of the market a matter to be determined by the natural play of economic and competitive forces, not by administrative fiat or arbitrary restriction upon activities of any particular person or group.

That a market which provides a high degree of convertibility between money and securities is essential is hardly open to question. Through this quality security markets make a first major contribution to public welfare. The second contribution is, and must be, in providing the machinery which will result in prices, which

to the degree possible in connection with standards established by fallible human judgments, are continuously appropriate. Indeed, provided that the maximum numbers of actual and potential buyers and sellers meet in a market which thus provides maximum exchangeability between cash and securities, there is no important way in which the markets can affect the public welfare either for good or for evil except in terms of the prices at which transactions are effected. With unimportant exceptions all public and private complaints and attacks upon security markets originate with matters pertaining to price. Manipulation, for example, is meaningless except in terms of prices. Attempts by governments, of which history records many, to regulate, restrict, or suppress security markets have arisen principally as the aftermath of price declines; and substantially all regulation seeks, directly or indirectly, consciously or unconsciously, to impose officially conceived price patterns on the market.

That which constitutes an appropriate price of a security, and particularly of a stock, may vary widely from moment to moment, reflecting the various factors previously mentioned. Clearly it is not something which can be established by authority or which is invariable or which is to be determined by exclusive concentration on any one particular factor like corporate earnings. Like every price, it must be the resultant of conflicting demands and judgments—a product of the market. The problem must therefore be the determination of the characteristics of the market in which prices which are appropriate will most commonly prevail. The appropriate price for a stock at a particular moment is clearly that which is most satisfactory to the buyer and to the seller. For the buyer it is the lowest price at which anyone will sell to him at the time when he desires or is forced to buy.

For the seller it is the highest price which anyone will pay to him when he desires or is forced to sell. Just as the bringing together of a maximum number of buyers and sellers provides maximum convertibility, so also does it provide most appropriate prices, for plainly the bringing together of the maximum number of competing sellers will most benefit the buyer; and the bringing together of the maximum number of competing buyers will most benefit the seller. If all possible buyers and sellers are at all times present to compete with each other, each transaction will be effected at the price most satisfactory to the seller and to the buyer, and therefore the most appropriate. In such a market all interested persons will at all times combine to produce the broadest composite judgment of the most appropriate price, and securities will be continuously distributed to those who value them the highest.

This does not mean that a seller may not wish to sell at a higher price than anyone in the world is willing to pay, nor that a buyer may not wish to buy at a lower price than anyone is willing to accept. But appropriateness of price in a market is not to be determined in terms of the dominance of one individual's personal needs or predilections over and against those of all others. It is mutual competition in one market of the expressions of the needs and desires of the greatest number of individuals which can reasonably be expected to produce at a particular moment the most "appropriate" price. Exclusion from the market of the expressions of the needs and desires of any group of interested individuals can only tend to render price inappropriate.

The appropriateness of price may be adversely affected by the presence of certain other circumstances. Since prices are matters of judgment in relation to needs and desires, the misrepresentation of facts or the withholding

of pertinent facts, can, of course, result in erroneous judgments and in prices which though appropriate to the representations are inappropriate to the facts. Then, too,since the appropriateness of price rests fundamentally upon genuine competition between buyers and sellers, the eliminating of competition may adversely affect the appropriateness of price. The "corner" or monopolistic dominance of the market by individual buyers or sellers is illustrative of this, as is also the artificial excluding from the market of experienced buyers and sellers. Inappropriate price change may also be produced by the exercise of bad judgment in relation to actual needs and desires, but competition in the security market, as in most walks of economic life, tends to eliminate bad judgment and perpetuate good judgment. In any event determining in advance of the automatic process which individual has good judgment and which has not would present a perplexing problem.

Enough has now been said of the inherent characteristics of stocks as property, the requirements of investors, the influences which affect prices, and the function of short-term dealing, to warrant summarization of the desirable characteristics of stock markets. Outstanding, of course, is the requisite that securities be convertible readily into cash. To the extent that the investor is provided with this prerequisite to his investing, the fundamental conversion of sterile savings into productive wealth is promoted and the improvement of living standards encouraged. There is no certain way of judging how much impairment of this quality of convertibility can be sustained, how much delay the investor may be forced to incur when he desires to sell, without damaging seriously the desirability of securities as repositories for savings. It is, however, difficult to envision a condition wherein too much of this quality could be detrimental to public welfare when not based

on manipulation or restricted competition. The maximum possible convertibility is determined by the willingness of all people to purchase and sell securities. Free markets in which the maximum number of these people assemble provide maximum convertibility for the security holder. Artificial banning from the market of some of those desiring to purchase or sell securities clearly constitutes artificial restriction upon the ability of the holder to withdraw his savings and of the owner of savings to invest them.

The second quality to be sought in security markets as in all others is the presence of the circumstances under which appropriate prices will most surely and over long periods be maintained. A concept of stable or invariable price is foreign to the realities. The most appropriate price cannot be defined in terms of official formula; it can be defined only as that which is most suitable to the maximum number of people interested in the security; and this, in turn, is the price that results from bringing together in organized competitive markets the maximum number of potential buyers and sellers, whether they be described as investors or speculators, public or professional, long-term or short-term. Elimination of any group desirous of purchasing securities denies to those investors who desire to sell the benefit of the excluded group's bidding; and, similarly, it denies to those who desire to purchase the benefit of the excluded group's competitive offering.

Liquidity and appropriate prices in security markets thus appear to be but two different aspects of the same set of circumstances, the maximum concentration of actual and potential non-manipulative buyers and sellers. Given these circumstances, the results will be minimum differentials at particular moments between the price at which a person may buy and that at which he may sell, and maximum continuity of price—that is, minimum

differences between successive transactions—since the nearer transactions are in point of time the greater the price influence of the preceding upon the succeeding transaction. Under these circumstances, the investor may buy or sell promptly and also know most accurately the price which he will receive when he decides to sell or the price he must pay when he decides to buy. Under these circumstances, it seems that the market will most surely provide to the security holder the essential convertibility and at the same time minimize the risks incident to the property which he holds.

At the present time and for many months, the seller of a block of stock has experienced difficulty in finding buyers and the offer has tended to produce a more rapid price decline than in the past. Similar consequences are attendant upon buying orders. This is the common conclusion of those who have had long and intimate knowledge of market conditions. Comparisons between the degree to which prices are forced down by the offering of stock and forced up by the bidding for stock, in the current market, with former periods also indicate the relative thinness of the market. Thus by taking those days in which there have been pronounced declines or advances in prices as a whole and observing the relationship between the amount of price change and the volume of transactions, an approximation of a measurement of the price instability that has developed in this thin market may be made. The results of such an analysis are to be found in the accompanying tabulation.

This tabulation compares the relationship between the volume of transactions and the price changes for thirty individual common stocks during the past Winter and the Winter of 1930-1931 which was the most recent period when the levels of prices in general were similar to those now prevailing. For the twelve days in the

REPORTED VOLUME OF TRANSACTIONS PER ONE DOLLAR AND PER ONE PER CENT CHANGE IN PRICE

Name of Stock	Advancing Prices Average for Twelve Days				Declining Prices Average for Twelve Days			
	Thousands of Shares for Price Change of							
	One Dollar		One Per Cent		One Dollar		One Per Cent	
	1930–31	1936–37	1930–31	1936–37	1930–31	1936–37	1930–31	1936–37
Westinghouse Electric & Manufacturing Company	16.9	1.9	16.6	2.8	26.8	0.8	21.3	1.1
General Electric Co	41.8	16.2	20.0	8.1	64.8	8.5	29.6	4.8
General Motors Corp	65.4	34.3	26.7	24.6	94.8	22.4	34.3	13.8
Chrysler Corp	74.1	9.4	14.4	12.1	56.8	5.4	9.4	6.5
Anaconda Copper Mining Co.	25.6	15.6	9.0	7.1	42.3	15.6	13.2	9.2
International Nickel Co. of Canada Ltd	70.6	19.1	12.1	11.6	90.6	7.8	14.5	5.2
United States Steel Corp	23.5	14.5	34.0	10.6	32.8	9.8	43.4	11.3
Bethlehem Steel Corp. (Del.)	20.8	8.1	12.1	5.9	27.1	4.3	14.6	4.0
Montgomery Ward & Co. Inc.	38.4	12.1	8.0	7.0	27.8	6.2	5.0	3.8
Woolworth (F. W.) Co	10.1	7.2	6.0	4.4	11.2	5.9	6.7	3.1
General Foods Corp	16.3	7.5	8.9	3.0	15.4	7.0	7.6	2.9
Corn Products Refining Co	4.3	3.5	3.8	2.6	3.5	2.3	2.4	1.4
Pennsylvania R. R. Co	8.6	12.2	5.1	5.1	7.4	6.7	4.3	3.0
Atchison, Topeka & Santa Fe Railway Co	0.8	3.5	1.5	2.8	2.2	2.9	4.1	2.4
Union Carbide & Carbon Corp.	14.2	3.5	8.7	3.5	22.2	1.8	12.1	1.8
American Tel. & Tel. Co	5.4	1.7	10.3	3.1	10.3	2.9	19.9	4.8
Standard Oil Co. of N. J	15.8	14.9	7.9	9.4	40.6	7.1	18.4	5.1
American Can Co	20.0	2.9	24.4	4.0	34.5	1.8	38.6	1.8
Johns-Manville Corp	4.7	0.4	3.1	0.6	4.6	0.4	2.6	0.5
Briggs Mfg. Co	57.1	4.7	11.1	2.9	23.6	2.7	3.4	1.3
Shell Union Oil Corp	15.6	7.9	1.4	2.0	52.1	1.8	4.1	0.5
Bendix Aviation Corp	17.2	10.5	3.6	3.1	13.8	7.1	2.3	1.8
American Radiator & Stand. San. Corp	27.2	28.4	4.9	6.6	23.5	12.7	4.4	3.2
Texas (The) Corp	9.8	10.8	3.4	4.8	18.1	16.7	5.7	9.6
Reynolds (R. J.) Tob. Co. "B"	24.1	22.2	10.0	10.0	11.4	12.0	5.3	6.0
United States Rubber Co	9.3	11.0	1.3	4.5	8.8	3.8	1.2	2.2
Western Union Telegraph Co.	1.1	3.8	1.5	3.4	1.1	1.7	1.4	1.2
Southern Pacific Co	1.1	9.4	1.1	4.1	3.1	4.9	3.1	2.8
Radio Corp. of America	58.0	96.4	9.9	11.3	81.6	129.5	13.7	13.6
Northern Pacific Ry. Co	1.6	12.2	0.9	3.3	2.1	7.6	1.1	2.5
Averages for 30 Stocks	18.5	10.1	11.3	6.9	23.1	6.7	13.1	4.7

The dates selected were those of larger price change for the market as a whole.

In the 1930-1931 period the dates of advancing prices were: 1931—Jan. 2, 3, 6, 16, 20, 22, 23; Feb. 7, 9, 10, 19, 20. The dates of declining prices were: 1930—Oct. 31; Nov. 5, 10, 17; Dec. 10, 16, 22; 1931—Mar. 27; Apr. 17, 21, 28 and 29. In the 1936-1937 period the dates of advancing prices were: 1936—Oct. 2, 3, 6, 16, 27, 29; Nov. 4, 5, 16, 17, 24 and 27; The dates of declining prices were: 1937—Mar 8, 11, 18, 22; Apr. 1, 2, 6, 7, 22, 23, 24, and 26.

earlier period during which the market prices as a whole experienced the greatest declines, the total amount of recession in the price of Westinghouse Electric Mfg., for example, was determined and the average volume of transactions per one dollar and per one per cent decline was computed. Similar computations for twelve days in the early part of 1937 were also made. By referring to the table it may be noted that in 1930-1931 the market absorbed sales of 26,800 shares for each $1.00 decline, whereas in 1937 it absorbed only 800 shares for each $1.00 decline in price. Corresponding figures per one per cent decline were 21,300 and 1,100 shares. Similar computations were made showing the average behavior of twelve days of advancing prices in the earlier period, and twelve days of advancing prices in the more recent period, and corresponding computations were made for twenty-nine other stocks.

The data in the table involved recording price declines in the earlier period for twelve days for each of thirty stocks, that is, 360 price declines. The average of these price declines was $1.25 for the earlier period and $1.33 for the more recent period. The average of price advances was $1.04 for the earlier period and $1.03 for the more recent period. The notes appended to the tabulation record the dates for which computations were made.

This is, of course, a sample analysis dealing with a problem in which measurements are theoretically and intrinsically difficult to make in a conclusive fashion. It does, however, indicate that price changes of equivalent amounts are now brought about by substantially smaller volumes of purchases and sales than formerly and it is a fair inference that it is now more difficult than formerly to sell or to purchase blocks of stocks without affecting prices in a manner adverse to the interest of the buyer or seller.

Thin and inactive markets are disadvantageous both

to the long term and to the short term purchaser and seller of securities. They mean that those who through necessity or inclination desire to adjust their holdings find that the period necessary to do so becomes lengthened and the possibility of the price situation being disadvantageous becomes greater. There are numerous instances in which investors, seeking to liquidate blocks of securities, have found the market unable to "take" the offer, and have, therefore, either been forced to consider their investment illiquid or have consummated their business elsewhere.

These conditions in the security markets may rightfully arouse concern in the minds of those who seek the enduring welfare of the country, and who are desirous that the security and capital markets shall contribute their full share towards a balanced recovery and prosperity. The existing conditions may well be harmful not only to the interests of investors but also to the fundamental investment flows whereby new productive wealth is created. No dispassionate observer could fairly attribute these security market conditions entirely to any one cause or regulation, but, on the other hand, it seems clear that they are to a substantial degree due to various legislative and regulatory measures, mentioned elsewhere in this report, which have had the effect of discouraging the buying and selling of securities.

Security markets may be appraised from at least two points of view: the protection afforded investors as individuals on the one hand, and the protection afforded the general public welfare on the other. The latter view envisions the functions of markets in the fundamental processes of creating productive wealth, in financing desirable expansion, and thus in promoting advancing living standards.

It was, of course, a natural psychology, resulting from

the great deflation of security prices from 1929 to 1932, that public emphasis should rest mostly upon the first point of view. No one questions the real progress that has been made in protecting individual investors against fraud and manipulation. Business recovery, however, has reached the point where the expansion of productive wealth has become necessary and desirable. It is suggested, therefore, that all persons in government and without, who are interested in the long-time improvement of American living standards dispassionately reappraise existing market conditions to determine the degree to which the public welfare is being served.

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